

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPM ENT
NOVEMBER 2010**

**CON REVIEW: HG-RC-0910-032
MAGNOLIA REGIONAL HEALTH CENTER
CONSTRUCTION/RENOVATION/RELOCATION & EXPANSION OF A HEALTH CARE
FACILITY
CAPITAL EXPENDITURE: \$22,528,128
LOCATION: CORINTH, ALCORN COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Magnolia Regional Health Center is a short term, general acute care, public hospital owned by the City of Corinth and Alcorn County. The facility is governed by a seven-member Board of Trustees. The facility is certified to participate in the Medicare and Medicaid programs and is accredited by the Joint Commission on Accreditation of Healthcare Organization (JCAHO).

Magnolia Regional Health Center is licensed for 164 beds. The occupancy rates, average length of stay (ALOS), and Medicaid utilization for the three most recent years are as follows for the years 2007 through 2009:

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2007	49.19	3.98	N/A
2008	58.09	4.32	16.90
2009	63.30	4.43	46.39

Source: Division of Health Facilities Licensure and Certification, MSDH

B. Project Description

Magnolia Regional Health Center requests Certificate of Need (CON) authority to consolidate and relocate its Imaging Department, and Registration and Pre-Admit Testing areas, relocate and expand its Emergency Department; and develop space for future expansion of Surgery.

The applicant states that the proposed project will consists of the following parts:

- **Imaging Services (currently the hospital offers imaging services at three separate locations)**
 - First Floor Imaging Services - the Imaging Department is located in one of the oldest constructed parts of the physical plant. The department currently does not have ample space appropriately configured for operational efficiencies. The applicant also states

that space in the department is undersized to appropriately accommodate patients in the waiting and dressing room areas. The applicant states that appropriate waiting space and dressing rooms will be included in the new Imaging Department for patient convenience and privacy. The new physical layout will be altered to accommodate current needs with regard to access, function, size and operational efficiencies in the department.

- **Separate Imaging Services offered on the hospital campus** – registration areas for imaging location are separate. Having imaging services in separate buildings, each with its own registration area can translate to disjointed service delivery and coordination among the departments. Consolidating the Imaging Departments to a central location with appropriate registration, waiting and dressing space is pivotal to achieve operational and patient efficiencies.
 - **Imaging Services offered across town** - imaging services are offered across town due to the lack of space on the campus of Magnolia Regional Health Center. As stated above, the applicant believes that consolidating the Imaging Departments to a central location with appropriate registration, waiting and dressing space is pivotal to achieve operational and patient efficiencies.
- **Emergency Department** – the proposed project seeks authority to relocate and expand the Emergency Department of the hospital to reconfigure the space for enhanced patient access and operational efficiencies. The layout for the department addition consists of both new construction and renovation work. The design chosen was the most efficient and cost effective approach for the expansion. The applicant proposes to construct a new entrance to the hospital to allow patients improved access. Although the Emergency Department at Magnolia Regional Health Center underwent remodeling efforts in the past, it has limitations within the confines of an aging structure. The proposed construction/renovation will allow for better space planning and patient flow through the department to accommodate patients seeking emergency services at the hospital.
 - **Consolidation/Relocation of Registration and Pre-admit Testing** – a centralized registration and pre-admit testing area is a significant part of the construction/renovation project as it will eliminate 5 separate registration areas to be reduced to one area.
 - **Development of Space for Future Surgery Expansion/Addition of Central Energy Plant** – the proposed project seeks approval for the development of space for a future surgery expansion as well as the addition of a central energy plant to provide the infrastructure for the project.

The proposed project involves approximately 25,221 square feet of new construction and 27,084 square feet of renovation to be located on the Ground and First Floors of the Hospital. The construction involved in the proposed project will occur on the south end of the hospital campus and will utilize some

expansion space resulting from a 2007 project. The construction will take advantage of the slope in the property which will allow for the construction of a ground level for part of the added space.

The applicant projects a total non-fixed equipment cost of \$5,030,000. The applicant states that the equipment will be obtained through a lease agreement with a qualified vendor. The applicant affirms that Magnolia Regional Health Center is in discussions with various vendors regarding equipment, but lease agreements will not be prepared until final terms have been reached.

The applicant projects an addition of 53.0 FTE personnel for the proposed project at an annual cost of \$2,036,000.

The total capital expenditure for the proposed project is \$22,528,128.

The MSDH Division of Health Facilities Licensure and Certification has approved the site for the proposed project.

If the proposed project is CON approved, the applicant asserts that the project shall commence by February 2011, and be completed by May 2012.

II. TYPE OF REVIEW REQUIRED

This project is reviewed in accordance with Section 41-7-191, subparagraph (1) (j) Mississippi Code 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 December 6, 2011.

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

A. State Health Plan (SHP)

The *FY 2010 Mississippi State Health Plan* contains criteria and standards which the applicant is required to meet before receiving CON authority for construction, renovation, and expansion. This application is in compliance with applicable criteria and standards.

Note: CON applications are required to be reviewed under the Plan in effect at the time the application is received by the Department. This application was received on September 1, 2010, and the *FY 2011 State Health Plan* has an effective date of September 8, 2010.

SHP Criterion 1- Need

The proposed project requests approval of a Certificate of Need to be issued to Magnolia Regional Health Center for a construction/renovation project involving its Imaging and Emergency Departments. Components of this construction/renovation involve upgrades to aging structures and replacement of equipment; improvement of operational efficiencies of the departments;

correction of facility space; design deficiencies and provision of an appropriate infrastructure to support the new space. The applicant states that no new institutional health services or additional licensed beds are proposed as a part of the project.

The applicant states that Magnolia Regional Health Center currently participates in the statewide trauma system as a Level III Trauma Center.

SHP Criterion 2 - Bed Service Transfer/Reallocation/Relocation

This criterion is not applicable to the proposed project.

SHP Criterion 3 - Charity/Indigent Care

Magnolia Regional Health Center asserts that it will continue to provide a significant amount of indigent/charity care. Magnolia Regional Health Center affirmed that the hospital provided \$9,183,353 in charity care for FY 2009.

SHP Criterion 4 - Cost of Proposed Project

- a. Cost per Square Foot:** The applicant states that the proposed project consists of approximately 27,084 square feet of renovation at a cost of \$298.34 per square foot; and 25,221 square feet of new construction at a cost of \$373.41 per square foot. According to the RSMeans Building Construction Cost Data, 2010 Edition, the cost per square foot for construction of a hospital ranges from \$182 - \$310. Therefore, Magnolia Regional Health Center's estimated cost of \$373.41 per square foot of new construction is above the average cost when compared to hospital construction projects listed in the The RSMeans Building Construction Cost Data, 2010 Edition. The RSMeans Building Construction Cost Data, 2010 Edition does not compare costs of renovation projects. However, Magnolia Regional Health Center states that projects previously approved by the Mississippi State Department of Health (MSDH) have ranged from \$66.24 to \$319.15 in renovation costs per square foot, and from \$180.65 to \$402.75 in new construction costs per square foot. The applicant believes that this reflects that hospitals in the state are experiencing a broad range of construction costs, based on the particular circumstances of each project. Therefore, the applicant believes that their projected renovation cost of \$298.34 per square foot, and new construction cost of \$373.41 per square foot, fall within the range of formerly approved projects by the MSDH. The applicant affirms that Magnolia Regional Health Center has worked closely with project architects to present a cost estimate that is both reasonable and accurate.
- b. Equipment Cost:** The applicant has projected total non-fixed equipment costs of \$5,030,000, which calculates to 22.33% of the total capital expenditures of the project. The applicant states that these costs are within a reasonable amount when compared with the equipment costs of other hospital construction and renovation projects approved by the MSDH. The applicant states that since this proposal consists of enhancements to both the Imaging and Emergency Departments, the project necessarily involves a significant amount of non-fixed equipment.

SHP Criterion 5 - Floor Area and Space Requirements

- a. The applicant asserts that the gross square footage of the proposed project for both the construction and renovation compares favorably with state and national norms for similar projects.
- b. The applicant asserts that this criterion is not applicable to the proposed project.
- c. The applicant asserts that this criterion is not applicable to the proposed project.

SHP Criterion 6 - Renovation versus Replacement Facility

The applicant affirms that the cost of the proposed construction/renovation project does not exceed 85% of the cost of a replacement facility.

SHP Criterion 7 - Need for Service

The applicant does not propose new services as a result of the proposed project.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, May 1, 2010, Revision*, addresses general criteria by which all CON applications are reviewed. This application is in substantial compliance with general review criteria.

GR Criterion 1 – State Health Plan

The proposed project is consistent with the *FY 2010 State Health Plan*.

GR Criterion 2 – Long Range Plan

The applicant submits that the long range goal of the hospital is to provide high quality facilities and services to patients seeking health care services at Magnolia Regional Health Center. The applicant states that the proposed construction and renovation will encompass upgrades to aging structures and replacement of equipment; improvement of operational efficiencies of the departments; correction of facility space; design deficiencies and provision of an appropriate infrastructure to support the new space. The applicant believes that the proposed project once completed will significantly enhance the patient care provided in the imaging and emergency departments of the hospital.

GR Criterion 3 – Availability of Alternatives

The applicant suggests that the hospital could have chosen not to construct or renovate space for the purpose of improving the imaging and emergency departments of the hospital. However, if this alternative were chosen, the applicant states that patients would continue to experience disruption in services resulting from operational inefficiencies and space configurations not conducive to efficient delivery of patient care.

The applicant believes that modernization of an existing facility and construction of additional space on an as needed basis exhibits financially sound analysis for

the provision of services in the most cost effective and efficient manner. According to the applicant, the proposed project will foster improvements needed to provide high quality services and meet the changing trends in health care service delivery.

The applicant concluded that the proposed project is the most efficient and cost effective solution.

GR Criterion 4 – Economic Viability

Based on the applicant's three-year projected operating statement contained in the application, the applicant indicates a net operating income on the project of \$5,515,372 the first year, 4,514,664 the second year, and 3,578,041 the third year of operation.

- a. **Proposed Charge:** The applicant states that the proposed charges and profit-loss projections are reasonable and consistent with the experience of comparable facilities.
- b. **Projected Levels of Utilization:** The applicant states that the projected levels of utilization for the hospital are consistent with the experience of comparable facilities in the service area and the state.
- c. **Project's Financial Feasibility Study:** The application contained a letter from the Chief Financial Officer of Magnolia Regional Health Center attesting to the financial feasibility of the project.

GR Criterion 5 – Need for Project

- a. **Access by Population Served:** The applicant affirms that all residents of the service area, in particular low income persons, racial and ethnic minorities, women, handicapped persons, and the elderly, will continue to have access to the facility.
- b. **Relocation of Services:** The applicant suggests that the proposed construction/renovation will enhance the service delivery particularly in the imaging and emergency departments of the hospital. The proposed relocation of imaging services from 3 separate settings to one location within the hospital will provide for greater efficiency and space design features not otherwise available.

The applicant states that the space vacated by the emergency department will accommodate for educational and conference space. The applicant also states that the space to be vacated by the imaging department will allow for the consolidation of the outpatient and inpatient physical therapy departments. Currently the physical therapy department is located across the street from the hospital.

- c. **Probable Effect on Existing Facilities in the Area:** The applicant asserts that the proposed project should have no adverse effect on existing facilities.
- d. **Community Reaction:** The application contained five letters of support for the proposed project.

GR Criterion 6 – Access to the Facility or Service

- a. **Medically Underserved Population:** Magnolia Regional Health Center, affirms that all residents of the service area, including Medicaid/Medicare recipients, charity/medically indigent patients, racial and ethnic minorities, women, handicapped persons, and the elderly will have access to the proposed services.
- b. **Performance in Meeting Federal Obligations:** The applicant submits that Magnolia Regional Health Center 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 Magnolia Regional Health Center will be certified for participation in Medicare and Medicaid. The applicant affirms that no restrictions or advantages will be placed on care based on payor source, creed, national origin or disability.

GR Criterion 7 – Information Requirement

Magnolia Regional Health Center 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

Magnolia Regional Health Center asserts that the proposed project will complement the existing health care facilities and services offered within the service area without adverse impact.

The applicant believes that once the proposed project is completed it will enhance the health care system by providing health care resources needed by the community. The applicant states that if the proposed project is not implemented, the result will be an adverse impact to patients seeking services at Magnolia Regional Health Center.

GR Criterion 9 – Availability of Resources

The applicant states that Magnolia Regional Health Center has demonstrated a satisfactory staffing history. The applicant projects an addition of 53.0 FTE personnel for the proposed project at an annual cost of \$2,036,000.

The applicant affirms that Magnolia Regional Health Center will recruit needed personnel, from its present recruiting efforts and affiliation arrangements.

GR Criterion 10– Relationship to Ancillary or Support Services

The applicant asserts that the project should not have an adverse effect upon the delivery of ancillary or support services nor the charges associated with the services.

GR Criterion 11 – Health Professional Training Programs

According to the applicant, Magnolia Regional Health Center plans to cooperate with health professional training programs in the surrounding area.

GR Criterion 12 – Access by Health Professional Schools

The applicant affirms that Magnolia Regional Health Center has a track record of providing high quality health care services to their patients. Therefore, the applicant suggests that Magnolia Regional Health Center's proposed project can meet the clinical needs of health professional training programs.

GR Criterion 14 – Construction Projects

- a. **Cost Estimate:** The application contains schematic drawings and a site plan of the project. In addition, the application contained a cost estimate signed by Richard L. Miller, the president of Richard L. Miller, Architect.
- 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. **New Construction Projects:** This project involves new construction of 25,221 square feet of new construction.
- e. **Cost per Square Foot:** The proposed project will consist of 25,221 square feet of new construction at a cost of \$373.41 per square foot. According to the RSMeans Building Construction Cost Data, 2010 Edition the cost per square foot for construction of a hospital ranges from \$182 - \$310. Therefore, Magnolia Regional Health Center's estimated cost of \$373.41 per square foot of new construction is above the average cost when compared to hospital construction projects listed in the The RSMeans Building Construction Cost Data, 2010 Edition. The RSMeans Building Construction Cost Data, 2010 Edition does not compare costs of renovation projects.

GR Criterion 16 – Quality of Care

Magnolia Regional Health Center believes that the construction and renovation contemplated by this CON proposal will significantly improve the quality of care and delivery of services in the imaging and emergency departments of the hospital.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

The total estimated capital expenditure is allocated as follows:

	Item	Cost	Percentage of Total
a.	Construction Cost – New	\$ 8,274,254	36.73%
b.	Construction Cost – Renovation	\$ 6,852,252	30.42%
c.	Capital Improvements	\$ 0	0%
d.	Total Fixed Equipment Cost	\$ 0	0%
e.	Total Non-Fixed Equipment Cost	\$ 5,030,000	22.33%
f.	Land Cost	\$ 0	0%
g.	Site Preparation Cost	\$ 0	0%
h.	Fees (architectural, consulting, etc.)	\$ 1,036,202	4.60%
i.	Contingency Reserve	\$ 1,335,420	5.93%
j.	Capitalized Interest	\$ 0	0%
k.	Other (CON Purchase)	\$ 0	0%
	Total Proposed Capital Expenditure	\$22,528,128	100%

Magnolia Regional Health Center proposes to consolidate and relocate its Imaging Department; relocate and expand its Emergency Department; consolidate and relocate Registration and Pre-Admit Testing areas; and develop space for future expansion of Surgery.

The applicant states that the proposed project consists of approximately 27,084 square feet of renovation at a cost of \$298.34 per square foot; and 25,221 square feet of new construction at a cost of \$373.41 per square foot. The RSMeans Building Construction Cost Data, 2010 Edition states that the cost per square foot for construction of a hospital ranges from \$182 - \$310. Therefore, Magnolia Regional Health Center’s estimated cost of \$373.41 per square foot of new construction is above the average cost when compared to hospital construction projects listed in the The RSMeans Building Construction Cost Data, 2010 Edition. The RSMeans Building Construction Cost Data, 2010 Edition does not compare costs of renovation projects.

The applicant provided a letter signed by the Chief Financial Officer of Magnolia Regional Health Center attesting to the financial feasibility.

B. Method of Financing

The applicant intends to finance the proposed project through a capital lease for equipment at 3.6% interest for 5 years; and from cash reserves. The audited financial statements contained in the application indicate that the applicant had \$10.3 million in cash and cash equivalents at the end of 2009.

C. Effect on Operating Cost

The Three-Year Projected Operating Statement is presented in Attachment 1 of the staff analysis.

D. Cost to Medicaid/Medicare

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

Patient Mix by Payor	Utilization Percentage	First Year Revenue
Medicaid	12%	\$29,426,000
Medicare	65%	154,396,300
Other	23%	52,512,000
Total	100%	\$236,334,300

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

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 Mississippi State Health Plan*; Chapter 8 of the *Mississippi Certificate of Need Review Manual, May 1, 2010*, 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 Magnolia Regional Health Center for the authority to consolidate and relocate its Imaging Department, Registration and Pre-Admit Testing areas, relocate and expand its Emergency Department; and develop space for future expansion of Surgery.

ATTACHMENT 1

**Magnolia Regional Health Center
Construction/Renovation/Relocation & Expansion
of a Health Care facility**

Three-Year Operating Statement

	Year 1	Year 2	Year 3
Revenue			
Inpatient Care Revenue	\$236,334,300	\$257,128,200	\$286,918,700
Outpatient Revenue	288,630,400	312,952,900	342,892,900
Gross Patient Revenue	\$524,964,700	\$570,081,100	\$629,811,600
Charity	11,024,220	11,971,660	13,226,000
Deductions from Revenue	371,354,110	416,115,040	472,840,740
Net Patient Care Revenue	\$142,586,370	\$141,994,400	\$143,744,860
Other Operating Revenue	3,773,500	3,811,200	3,925,500
Total Operating Revenue	\$146,359,870	\$145,805,600	\$147,670,360
Operating Expenses			
Salaries	\$ 51,143,057	\$ 50,712,200	\$ 51,440,500
Benefits	25,607,340	25,518,400	26,013,500
Supplies	29,979,681	30,576,047	31,276,142
Services	16,929,559	17,218,000	17,497,100
Lease Expenses	1,870,913	1,894,300	1,913,200
Depreciation	9,305,100	9,616,260	10,214,290
Interest	3,432,220	3,374,100	3,326,100
Other	2,576,628	2,381,629	2,411,487
Total Operating Expenses	\$140,844,498	\$141,290,936	\$144,092,319
Net Operating Income	\$ 5,151,372	\$ 4,514,664	\$ 3,578,041
Inpatient Days	38,645	38,780	39,180
Outpatient Visits	47,196	47,199	46,824
Procedures	1,087,783	1,089,532	1,089,837
Charge per outpatient day	\$ 6,116	\$ 6,630	\$ 7,323
Charge per inpatient day	\$ 6,116	\$ 6,630	\$ 7,323
Charge per procedure	\$ 483	\$ 523	\$ 578
Cost per outpatient day	\$ 3,645	\$ 3,643	\$ 3,678
Cost per inpatient day	\$ 2,984	\$ 2,993	\$ 3,077
Cost per procedure	\$ 129	\$ 130	\$ 132