

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
MAY 2011**

**CON REVIEW HG-RE-0211-002
GREENWOOD LEFLORE HOSPITAL
REPLACEMENT OF CENTRAL PLANT EQUIPMENT
CAPITAL EXPENDITURE: \$10,767,909
LOCATION: GREENWOOD, LEFLORE COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Greenwood Leflore Hospital (Greenwood) is a public nonprofit, short-term, general acute care hospital jointly owned by the City of Greenwood and Leflore County. The hospital is governed by a five-member Board of Hospital Commissioners, and is accredited by the Joint Commission on Accreditation of Healthcare Organizations.

The hospital is currently licensed to operate 188 medical/surgical beds, and 20 rehabilitation beds. The total licensed bed capacity is 208.

The occupancy rates, average lengths of stay (ALOS), and the Medicaid utilization rates for Greenwood Leflore Hospital are as follows for the years 2008 through 2010:

**Greenwood Leflore Hospital
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2008	62.10	4.85	23.71
2009	58.05	4.87	22.53
2010	51.21	4.68	23.17

Source: Division of Health Facilities Licensure and Certification, MSDH

B. Project Description

Greenwood Leflore Hospital requests Certificate of Need (CON) authority for replacement of central plant equipment on the campus of the existing hospital. The applicant states that the proposed project will upgrade the hospital's current facilities by replacing the central plant equipment, including chillers, boilers and related equipment items. According to the applicant, the project does not involve any clinical or other health services, but is simply intended to replace central plant equipment in order to upgrade the hospital's heating and cooling systems. There is a limited amount of 6,100 square feet of renovation work required for the installation of the equipment for the proposed project.

According to the applicant, the proposed project is necessary so that the hospital may provide efficient and cost-effective services in the future.

The total proposed capital expenditure is \$10,767,909 and of that amount, approximately 13 percent is for renovation, 11 percent for fees (architectural, consultant, etc.), 6 percent for contingency reserve, 8 percent for capitalized interest and 62 percent for fixed equipment. The applicant proposes to finance this project through a bank loan from Regions Bank of Birmingham, Alabama. The application contained a letter from Regions Healthcare Banking, Birmingham, Alabama concerning financing the project.

The applicant indicates that the anticipated date for obligation of the capital expenditure will be May 2011 and the anticipated date the project will be complete will be August 2012.

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

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 \$5,000,000 for non-clinical services, 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 6, 2011.

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

A. State Health Plan (SHP)

The *FY 2011 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, this project involves an upgrade to Greenwood Leflore Hospital's current physical facilities through the replacement of its central plant equipment, including chillers, boilers and related equipment items. There is clearly a need for the replacement of this equipment to facilitate the efficient operation of the hospital. The hospital's current central plant was originally constructed in 1949, and maintains some equipment in excess of 50 years of age, which has clearly exceeded its life expectancy. This project will provide Greenwood Leflore Hospital with new equipment within the central plant and provide additional redundancy to insure vital services are maintained when primary equipment fails. Within this project, the hospital has focused on energy conservation and identified significant energy savings within the scope of this project through redesign of the existing systems. In order to insure that this project is implemented in a proper and cost-effective manner, the hospital has engaged the mechanical and electrical engineering firm of Corbett, Legge & Associates, PLLC.

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

According to the applicant, Greenwood is a primary "safety net" hospital for the Mississippi Delta. The hospital provides a significant amount of indigent and charity care on an annual basis, and will continue to do so, in order to fulfill its mission to the community.

SHP Criterion 4 – Cost of Project

According to the applicant, the project primarily involves the replacement of plant equipment. There is a limited amount of renovation work associated with the project. The project includes the renovation of approximately 6,100 square feet at a cost of \$663.29 per square foot. The proposed project involves the purchase of fixed equipment. Greenwood asserts that the equipment costs for the project do not exceed the median costs for similar equipment by more than 15 percent. The hospital has engaged a mechanical and engineering firm to provide guidance on this project, including the purchase and installation of the equipment at a reasonable cost.

Staff calculates the cost of \$1,765.23 per square foot for renovation for the proposed project. See Attachment 1.

SHP Criterion 5 – Floor Area and Space Requirements

The applicant indicates that the total project will be 6,100 square feet of renovated space. The applicant asserts that this project does not involve new construction, but is limited to the replacement of equipment within the central plant area of the hospital.

B. General Review (GR) Criteria

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

GR Criterion 3 – Availability of Alternatives

The applicant asserts that due to the age of the hospital's physical plant, there are no feasible alternative to the replacement of the central plant equipment. The hospital has worked to insure that the project is developed in a cost-effective manner. Greenwood believes that the upgrading of the hospital's central plant will significantly benefit the hospital health care system by insuring that the hospital has adequate facilities to provide care and services to the residents of the service area.

GR Criterion 4 - Economic Viability

The applicant asserts that since the project involves only the replacement of the hospital's physical plant equipment. The proposed project does not involve the utilization of hospital services or charges. Therefore, it is not dependent upon future projected revenues.

The application contained a letter from the hospital's chief financial officer attesting to the financial feasibility of the project.

GR Criterion 5 - Need for the Project

The applicant states that Greenwood located in the heart of Mississippi Delta, is a safety net provider for a large population of medically underserved groups, including low income persons and racial and ethnic minorities. The hospital is accessible to all residents of its service area, regardless of ability to pay. The applicant believes that in order to continue to serve the needs of this dependent population, Greenwood Leflore Hospital must maintain and upgrade its hospital facilities, as needed. The hospital's central plant is outdated, and has exceeded its useful life. By replacing the hospital's central plant equipment, Greenwood Leflore Hospital will be able to continue to serve the health care needs of the residents of its service area.

The applicant asserts that the final objective of the proposed project is to upgrade the physical plant of the hospital through the replacement of outdated equipment, so that the hospital may provide efficient and cost-effective services in the future.

The application received three (3) 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

According to the applicant, the hospital is a Mississippi community hospital and a safety net provider for medically underserved populations in the Mississippi Delta. Since the hospital is accessible to all residents of the hospital's service area, regardless of ability to pay, Greenwood Leflore Hospital's pay or mix directly reflects the demographic characteristics of that community. The hospital provides approximately 20 percent in charity care revenue, and 22 percent Medicaid.

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.

Greenwood Leflore Hospital's historical commitment to the needs of Medicare, Medicaid and medically indigent patients is well recognized and documented. The hospital will continue to serve these needs in the future.

The applicant submits that the percentage of gross patient revenue (GPR) of health care provided to charity care patient for the years 2008 and 2009 are as follows for this project:

**Gross Patient Revenue
Amount**

	Charity Care (%)
Historical Year 2008	20.7
Historical Year 2009	19.4

Greenwood Leflore Hospital projects that it will provide similar amounts of charity care years following completion of this project.

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, the proposed project will enhance the hospital's health care services by upgrading the hospital's physical plant equipment.

The applicant believes that failure to implement the proposed project will be at significant risk of a disruption of hospital operations, due to an outdated physical plant in obvious need of upgrading and replacement.

Because no new services will be offered 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 14 - Construction Projects

- a. **Cost Estimate:** The application contains a cost estimate prepared by Corbett Legge & Associates, PLLC.
- 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 does not involve new construction.
- e. **Cost per Square Foot:** The proposed project involves approximately 6,100 square feet of renovated space at an estimated cost of \$1,765.23 per square foot (See Attachment 1). The *Means Construction Cost Data, 2011* does not compare costs for renovation.

GR Criterion 16 - Quality of Care

Greenwood Leflore Hospital is in compliance with the *Minimum Standards for the Operation of Mississippi Hospitals*, according to the Division of Health Facilities Licensure and Certification, MSDH. The facility is accredited by the Joint Commission on Accreditation of Health Care Organizations.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

The total estimated capital expenditure is allocated as follows:

	Item	Cost	Percent of Total
a.	Construction Cost -- New	0	0
b.	Construction Cost -- Renovation	\$1,343,554	13%
c.	Capital Improvements	0	0
d.	Total Fixed Equipment Cost	6,661,858	62%
e.	Total Non-Fixed Equipment Cost	0	0
f.	Land Cost	0	0
g.	Site Preparation Cost	0	0
h.	Fees (Architectural, Consultant, etc.)	1,216,497	11%
i.	Contingency Reserve	816,000	6%
j.	Capitalized Interest	670,000	8%
k.	Other	0	0
	Total Proposed Capital Expenditure	\$10,767,909	100%

The above capital expenditure is proposed for replacement of central plant equipment on the campus of Greenwood Leflore Hospital. The proposed project involves approximately 6,100 square feet of renovated space at an estimated cost of \$1,765.23 per square foot (See Attachment 1). The *Means Construction Cost Data, 2011*, does not compare costs of renovation projects.

B. Method of Financing

The applicant proposes to finance this project through a bank loan from Regions Bank of Birmingham, Alabama. The application contained a letter from Regions Healthcare Banking, Birmingham, Alabama concerning financing the project.

C. Effect on Operating Cost

Greenwood Leflore Hospital states that the proposed project will replace the hospital's central plant equipment on the campus of Greenwood Leflore Hospital. The applicant asserts that the only effect on operating cost will be interest for year one (\$281,250), for year two (\$375,000), for year three (\$541,667) and depreciation cost of \$400,000 for year three. The applicant projects a decrease in other cost of (\$158,333) for year three for the proposed project.

D. Cost to Medicaid/Medicare

The proposed project will not generate inpatient and outpatient revenue. Therefore, costs to Medicaid, Medicare, and third party payors will be negligible.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid estimates that the increased annual cost to Medicaid for the proposed project will be \$103,440 in inpatient hospital services, and that outpatient services will be paid as outlined in the Medicaid State Plan. 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 2011 State Health Plan*; the *Mississippi Certificate of Need Review Manual, Revised May 1, 2010*; 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 Greenwood Leflore Hospital for the replacement of central plant equipment.

**Greenwood Leflore Hospital
HG-RE-0211-0002
Attachment 1
Computation of Renovation Cost***

<u>Cost Component</u>	<u>Total</u>	<u>Renovation</u>
New Construction Cost	0	0
Renovation Cost	\$1,343,554	\$1,343,554
Total Fixed Equipment Cost	\$6,661,858	\$6,661,858
Total Non-Fixed Equipment Cost	0	0
Land Cost	0	0
Site Preparation Cost	0	0
Fees (Architectural, Consultant, etc.)	\$1,216,497	\$1,216,497
Contingency Reserve	\$816,000	\$816,000
Capitalized Interest	\$670,000	\$670,000
Other	0	0
Total Proposed Capital Expenditure	\$10,767,909	\$10,767,909

Square Footage	6,100	6,100
<i>Allocation Percent</i>		100%

Costs Less Land, Non-Fixed Eqt. & Other	\$-0-	\$10,767,909
--	--------------	---------------------

\$1,765.23	\$1,765.23
-------------------	-------------------

*Source: Mississippi Certificate of Need Review Manual, Revised May 1, 2010