

**DIVISION OF HEALTH PLANNING AND
RESOURCE DEVELOPMENT
MAY 2012**

**CON REVIEW: HG-RC-0312-007
CLARKSDALE HMA, LLC D/B/A NORTHWEST
MISSISSIPPI REGIONAL MEDICAL CENTER
RENOVATION/EXPANSION
OF RADIOLOGY DEPARTMENT
CAPITAL EXPENDITURE: \$3,884,214
LOCATION: CLARKSDALE, COAHOMA COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Clarksdale Health Management Associates (“HMA”), LLC, a Mississippi limited liability company d/b/a Northwest Mississippi Regional Medical Center (“NWMRMC” or the “Hospital”). Mississippi HMA Holding II, LLC (“MS HMA Holding”) is the sole member and manager of Clarksdale HMA, LLC. NWMRMC is a part of the healthcare system of Health Management Associates, Inc., which includes 66 hospitals (10 located in Mississippi).

Clarksdale HMA, LLC and HMA leases the Hospital pursuant to a long-term lease agreement, with Coahoma County, Mississippi, acting through the Coahoma County Board of Supervisors and is accredited by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO). On February 29, 2012, the facility received a Certificate from the Secretary of State’s Office validating that the hospital is in good standing with the State of Mississippi.

NWMRMC is licensed for 181 acute care beds and 14 rehab beds. The table below lists its occupancy rates, average lengths of stay (ALOS), and Medicaid utilization rates for the most recent three years:

**Northwest Mississippi Regional Medical Center
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2009	37.05	4.05	26.91
2010	37.18	4.04	28.74
*2011	n/a	n/a	n/a

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

Note:* Northwest Mississippi Regional Medical Center’s FY 2011 Annual Hospital Report was not available prior to posting of this staff analysis.

B. Project Description

Northwest Mississippi Regional Medical Center requests Certificate of Need (CON) authority for the renovation and expansion of its radiology department.

The applicant indicates that the hospital was constructed approximately 60 years ago and has had minimal renovations performed to the radiology department over the years. The scope of the project involves the renovation of and the addition to NWMRMC's radiology department.

The applicant proposes to construct 5,263 square feet of additional space and renovate approximately 1,120 square feet of the hospital's existing space; therefore, the overall project involves 6,383 square feet of space. Currently, the radiology department's existing space is comprised of 9,284 square feet and includes the following: a mammography suite (with dressing and technical rooms), 2 radiography (fluoroscope) suites (one has a bath), 2 ultrasound suites (with a dressing area and bathroom), a CT scanner suite (with a technical work room and dressing area), a nuclear medicine room (with a bathroom), 1 catheterization laboratory, which accommodates a catheterization unit and a bone density scanner. Also, there are offices, a waiting room and other space designated for patients and their families within the radiology department.

The hospital plans to utilize external space directly outside of the hospital's radiology department in order to accommodate for the expansion of the department. Currently, that space is occupied with a trailer which is utilized as office space for environmental services personnel and a storage area for cleaning supplies, equipment, linens, and towels. According to the applicant, the trailer is not in good condition, aesthetically unattractive, and has no useful life left. As a result, the hospital proposes to demolish and remove the trailer to free up space for the expansion.

Additionally, the project entails the replacement of the hospital's current Integris 5 cardiac catheterization unit and the acquisition of a refurbished Philips Allura Xper FD20 catheterization unit. According to the applicant, the refurbished unit will be utilized in the proposed second catheterization laboratory as a backup unit.

The applicant proposes to enter into an operating lease agreement with Philips Medical Capital, LLC for a new state-of-the-art Philips Allura Xper FD20 to replace its existing Integris 5 cardiac catheterization unit. The applicant asserts that since the Integris 5 is 15 years old and has no more useful life the option to refurbish the unit is not an alternative. For that reason, the applicant intends to properly dispose of the unit. Also, the applicant proposes to acquire a refurbished Philips Ibis FD9 catheterization unit from Riverpark Community Cath Lab LLC ("Riverpark"), whose sole member is Natchez Community Hospital, LLC, an HMA affiliate. The applicant submits that the Ibis FD9 was leased by Riverpark pursuant to a true lease agreement in 2006 and was refurbished up to or beyond its original specifications, in accordance with Philips' Diamond Select program. Now, since that lease term has

expired Riverpark has the option to purchase the equipment at a fair market value. GC Healthcare Financial Services, the lessor/seller of the unit has offered a fair market value price of \$176,806.34 to Riverpark. Nevertheless, Riverpark has decided not to offer cardiac catheterization services; thus, no longer have a need for the unit. Because of Riverpark's decision to no longer offer cardiac catheterization services and the fact that NWMRMC is in the process of renovating and expanding its radiology department, HMA approached the officers at the hospital about acquiring the refurbished unit. According to the applicant, the offer was well received and a perfect fit for the hospital's long-range plans.

Upon completion of the project the hospital's radiology department total square footage will consist of 14,547 square feet of space and encompass a second cardiac catheterization laboratory, a catheterization control and equipment room, one new Philips Allura Xper FD20 catheterization unit (primary), and a used Philips Ibis FD9 catheterization unit (back-up). Also, the renovated/expanded space will include a six-bed prep/post anesthesia-care unit, a nurses' station, clean supply areas, a soiled linen area, physician/nurse prep areas, restrooms, a break room for the staff, and a new waiting area. Additionally, space will be made available for future growth of the department; particularly, for a fixed MRI unit and the applicable mechanics to support that unit.

NWMRMC estimates that the proposed project will cost a total of \$3,884,214 which is allocated as follows: 48.67% for new construction; 7.65% for renovation; 1.46% for fixed equipment; 27.01% for non-fixed equipment; 5.28% for site preparation; 4.63% for fees (architectural, consultant, etc.); 3.34% for contingency reserve; and 1.92% for other (ICRA procedures, building permit, and payment and performance bonds). The applicant intends to finance the proposed capital expenditure from the hospital's accumulated cash reserves and no additional staff is required.

On February 2, 2012, the Mississippi State Department of Health Division of Health Facilities Licensure and Certification asserts that the site meets all applicable requirements. Therefore, since NWMRMC 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 purpose. Also, on April 12, 2012, the Mississippi State Department of Health Division of Radiological Health granted approval of the design and plans for the proposed project. The applicant indicates that the capital expenditure for the proposed project will be obligated upon receipt of CON approval and the estimated completion date will be within six months.

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 requirement of Sections, 41-7-191, subparagraph (1) (j) of the Mississippi Code 1972, Annotated, as amended, and duly adopted rules, procedures, plans, criteria, and standards of 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 11, 2012.

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

A. State Health Plan (SHP)

The *FY 2012 State Health Plan* (“*Plan*”) contains criteria and standards which an applicant is required to meet prior to receiving CON authority for construction, renovation, expansion, or capital improvements involving a capital expenditure in excess of \$2,000,000. This application is in substantial compliance with these applicable criteria and standards.

SHP Criterion 1 – Need

Projects which do not involve the addition of beds: The applicant shall document the need for the proposed project. Documentation 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, NWMRMC’s physical plant was originally constructed approximately 60 years ago and since that time, various additions and renovations have occurred. The applicant asserts that different areas and departments in the hospital have been upgraded and revitalized; however, the radiology department has not undergone any major renovations or expansions. The applicant states that the most recent minor renovation occurred nearly 15 years ago. The applicant documents that the proposed project is part of the hospital’s long-range plans.

Currently, the facility’s radiology department consists of 9,284 square feet of space and houses the Philips Integris 5 cardiac catheterization equipment which the applicant believes is outdated and has no more useful life. Therefore, the applicant proposes to replace the dated cardiac catheterization equipment with a new Allura Xper FD20 unit, but the space that the current unit occupies is not large enough to accommodate the new unit. Moreover, the applicant asserts that the current catheterization lab does not comply with the specifications provided by Philips for the new and refurbished proposed cardiac catheterization units (Allura Xper FD20 and Ibis FD9). As a result, the current and proposed catheterization labs have been properly designed to meet the required specifications of the cardiac catheterization units proposed in this project.

NWMRMC believes that by enhancing its catheterization services, the hospital will provide the residents of GHSA 3 with quality healthcare, eliminate the need for patients to travel outside the community for the service, and increase utilization of the service. Additionally, the Hospital employed Canizaro Cawthon Davis (“Canizaro Cawthon”), an architectural firm, to conduct a study and provide recommendations that address the limitations hindering the flow of the radiology department and to recommend options for future development of the department. The applicant submits that the recommendations of the firm were to modify existing space within the radiology department and expand the department by utilizing external space, occupied by a trailer, right outside the department, thus allowing for new construction in the future if necessary. According to the applicant, the hospital accepted Canizaro Cawthon recommendations because the design concept allows the Hospital to modernize existing space in the radiology department, to construct an addition that will provide new space, and to allow the Hospital to remain current in the healthcare industry at the same time allow for future growth.

The applicant submits the following to justify the need for the project:

1. The replacement of the hospital’s existing Integris 5 with the new state-of-the-art Allura Xper FD20 will further the hospital’s goal of providing its patients with quality healthcare, will increase the quality of the procedures, will provide the patients with a safer procedural environment, and further the hospital’s goal of reaching those in the community most at risk for cardiovascular disease.
2. The addition of the second catheterization lab and the installation therein of the Ibis FD9 will allow the hospital to seamlessly provide its catheterization services during times of maintenance on the Allura Xper FD20 and allows the hospital to expand its catheterization services.
3. The existing radiology department is inadequate as it exists today and the proposed project will result in a new-state-of-the-art radiology department that complements the delivery of quality health care.
4. If the Hospital obtains a CON to convert its mobile MRI services to fixed MRI services and acquire MRI equipment, the proposed project is the most cost efficient time to accommodate for the transition.
5. The project will provide an efficient and convenient flow of the hospital’s patients through the radiology department.

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 patients for the past two years and for the first two years upon completion of this project:

	Medically Indigent (\$)	Medically Indigent (%)	Charity Care (\$)	Charity Care (%)
Historical Year 2010	\$25,154,517	7%	\$5,079,729	2%
Historical Year 2011	\$27,103,847	7%	\$5,718,983	2%
Projected Year 1	\$28,412,293	7%	\$6,051,679	2%
Projected Year 2	\$29,759,111	7%	\$6,428,059	2%

SHP Criterion 4 - Cost of Project

The applicant states that the proposed project consists of approximately 5,263 square feet of new construction at a cost of \$457.60 per square foot and 1,120 square feet of renovation at a cost of \$314.08 per square foot. However, staff calculations revealed that the cost per square foot for new construction will be \$455.71 and renovation cost per square foot will be \$322.99. According to the *Means Building Construction Cost Data, 2012 Edition* the cost per square foot for the construction of a hospital ranges from \$192 to \$325. Consequently, NWMRMC’s estimated cost per square foot of \$457.60 and staff calculations of \$455.71 exceeds the high cost range when compared to hospital construction projects listed in the *Means Building Construction Cost Data, 2012 Edition*. The *Means Building Construction Cost Data, 2012 Edition* does not compare costs for renovation projects (see Attachment 2).

The applicant documents that projects previously reviewed by MSDH in 2011 for construction of a hospital ranges from \$184 per square foot to \$315 per square foot and included areas i.e. patient rooms, administration areas, and other areas of the hospital that does not include costly construction as required for the proposed project.

The applicant indicates that the proposed project is a unique addition and renovation to its existing building. As a result, the applicant believes that the project is not a typical project and submits the following to defend the high cost per square footage:

1. This project is an addition and renovation to an existing hospital and is not the construction of a new free-standing building.

2. As such, this project will require an extensive concrete foundation system that includes drilled piers.
3. This project requires that many of the walls and doors be lead-lined.
4. This project involves demolition for which the *Means Building Construction Cost Data* does not take into account.
5. This project requires that during construction, infection control procedures must be put in place in order to separate the new and renovated space from the existing space.
6. This project will require additional construction hours in order to keep the existing radiology department and other areas of the hospital operational.
7. This project will require new electrical service.

Contrary, to the data provided in the *Means Building Construction Cost Data, 2012 Edition*, the applicant believes that the projected renovation and expansion costs are reasonable when considering the parameters of the project.

The applicant has projected non-fixed equipment costs as \$1,049,194 (27.07%) and fixed equipment as \$56,895 (1.46%) of the total capital expenditure. The applicant states that these equipment costs are within reason when compared with the equipment costs of other hospital construction and renovation projects and do not exceed the median costs for equipment of similar quality by more than 15%.

SHP Criterion 5 – Floor Area and Space Requirements

The applicant indicates that the gross square footage of the new construction is 5,263 square feet and 1,120 square feet is for renovation. The total gross square footage for the entire project is 6,383 square feet. The applicant asserts that upon completion of the project the radiology department will consist of 14,547 square feet of space which is reasonable for a 181-bed Hospital.

The applicant submits that when the hospital was built nearly 60 years ago advanced radiology services were not available. Due to the advancement in health, NWMRMC's radiology department is in need of additional space to accommodate new and innovative equipment. Fortunately, the radiology department is located in an area that allows the department an opportunity to expand externally. Based on the study conducted by Canizaro Cawthon the expansion can be accomplished simply by removing a trailer, situated on the outside of the department, and utilizing that space to expand the radiology department beyond the confines of the exterior wall. The expansion will enhance the efficiency of the department and provide space for two state-of-the-art pieces of equipment, according to the applicant.

No special considerations due to local conditions were identified for the proposed project. However, the applicant asserts that the existing building has limited and inadequate space and the design does not allow for easy flow through its radiology department. The applicant believes that the new design will be adequate enough to allow the hospital to effectively and conveniently treat its patients and to accommodate state-of-the-art equipment.

SHP Criterion 6 – Renovation versus Replacement

According to the applicant, the cost to renovate and expand the radiology department does not exceed 85 percent of the cost for a replacement facility. The *Means Building Construction Cost Data, 2012 Edition*, lists the median range for a replacement facility as \$55,476,500 and the $\frac{3}{4}$ range as \$63,893,000 which exceeds the capital expenditure of \$3,884,214 for the proposed project.

SHP Criterion 7 – Need for Service

The applicant is not proposing to expand any services. The proposed project is for the renovation and expansion of NWMRMC's radiology department which will improve efficiency and provide space for two state-of-the-art catheterization units (Allura Xper FD20 and Ibis FD9).

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, September 1, 2011, Revision*, addresses general criteria by which all CON applications are reviewed. This application is in substantial compliance with general review criteria.

GR Criterion 1 – Consistency with the *State Health Plan*

The application submitted by NWMRMC for the renovation and expansion of its radiology department is consistent with the *FY 2012 State Health Plan*.

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 Coahoma County community and is compatible with its long-range plans.

As previously stated, the Hospital employed Canizaro Cawthon Davis to conduct a study and provide recommendations that address the limitations hindering the flow of the radiology department and to recommend options for future development of the department. The applicant submits that the results of the study were to renovate existing space within the department and expand the department by utilizing external space, occupied by a trailer, right outside the department; however, allowing for future construction, if necessary. According to the applicant, the hospital accepted Canizaro Cawthon recommendations because the design concept allows the Hospital to modernize existing space in the radiology department, to construct an addition that will provide new space, to remain current in the healthcare industry, and allow for future growth.

GR Criterion 3 – Availability of Alternatives

According to the applicant, the alternatives listed below were considered and rejected.

One option the hospital considered was to do nothing and continue operating in the departments existing conditions. However, this alternative was rejected because it was not in the best interest of the Hospital's patients or the citizens of GHSA 3. The applicant indicates that the layout of the existing radiology department is currently outdated and inefficient. Furthermore, the current cardiac catheterization equipment is 15 years old and has no more useful life.

The other option that was considered was to relocate the radiology department to another part of the hospital. This alternative was rejected because it would cost more to relocate the entire department and there is no additional available space in the hospital to accommodate the almost 15,000 square foot department. The applicant states that the fact that the radiology department is located on an outside wall with only a trailer in the space required for the expansion allows for a perfect fit.

The applicant asserts that the project will effectively complement the Hospital's physical plant and keep pace with today's delivery of diagnostic services. A state-of-the-art renovation and expansion is required in order for NWMRMC to continue to offer high quality healthcare to its patients and the citizens of its service area. Furthermore, the Hospital believes this option is the most cost effective approach to accomplish its goal of a state-of-the-art radiology department.

According to the applicant, the project fosters improvements in the delivery of health care services and cost effectiveness by (i) acquiring and installing state-of-the-art catheterization equipment (ii) expanding and modernizing the radiology department (iii) electing to renovate the existing department and to construct an addition of 5,263 square feet of space without affecting any other part of the hospital and (iv) choosing an approach to bring the radiology department up-to-date while allowing for future growth.

The applicant believes that the proposed project is the only acceptable alternative, within the Hospital's budget, to rectify the limited space and outdated equipment issues NWMRMC's radiology department is faced with.

GR Criterion 4 - Economic Viability

The applicant provided a three-year projected operating statement and indicated that total operating revenue over a projected three year period shows an increase from \$88,046,356 to \$88,529,010. In addition, the statement reflects a net income of \$38,212,724 for the first year, \$38,381,329 for the second year, and \$38,457,494 for the third year (See Attachment 1).

NWMRMC states that this project will not result in an increase or decrease in the charges for the service and no adverse impact on gross revenues per patient day. The applicant further states that there will be a slight increase in expenses due primarily to additional supply costs, the lease payment for the Allura Xper FD20, and depreciation expenses. However, the applicant believes that the increase in expenses will be offset by an anticipated increase in utilization. Additionally, the applicant asserts there will be no impact on Medicaid, if so it would be minimal.

The *Report on Hospitals* indicate that NWMRMC’s average daily census rates for FY 2009 and FY 2010 were 70.69 and 67.29, respectively, and the occupancy rates were 39.05% and 37.18%, respectively. Upon completion of the project, the applicant project utilization for the first year to be 32.4% occupancy. The applicant asserts its utilization projections are conservative and reasonably consistent with the utilization levels experienced by similar facilities in GHSA 3. The table below indicates the FY 2010 utilization statistics for acute care facilities in GHSA 3.

Hospital	FY 2010 Occupancy Rate
Bolivar Medical Center	30.51%
Delta Regional Medical Center	41.89%
Greenwood Leflore Hospital	51.21%
Patient’s Choice Medical Center of Humphreys County	31.64%
North Sunflower County Hospital	37.48%
Quitman County Hospital	34.98%
South Sunflower County Hospital	28.47%
Tallahatchie General Hospital	23.62%

Source: *FY 2012 Mississippi State Health Plan*, MSDH

According to the applicant, the only utilization affected by the proposed project is the number of procedures performed in the Hospital. The applicant estimates that the current catheterization equipment can perform 200 procedures per year; however, the Allura Xper FD20, can increase the number of procedures by 350 more procedures in the first year, 368 more procedures in the second year, and 386 more in the third year. As a result, the total projected number of catheterization procedures performed for the first, second, and third year are: 550, 568, and 586, respectively.

The application contains a statement signed by the Chief Financial Officer of NWMRMC attesting to the viability of this project. The project is being funded by accumulated cash reserves. Furthermore, the application contains a signed statement from the Vice President and Treasurer of Health Management Associates, the parent company of Clarksdale HMA, LLC, committing to fund the project, if required.

Staff contends that based on the applicant’s financial feasibility study, the project appears to be economically viable.

GR Criterion 5 - Need for the Project

- a. **Access by Population Served:** The applicant affirms that the services offered at NWMRMC are available to all residents of the service area, including low income persons, racial and ethnic minorities, women, handicapped persons, the elderly, and other underserved groups.
- b. **Relocation of Services:** This application does not propose the relocation or addition of services and/or the addition of any beds. According to the applicant, the proposed project involves the expansion and renovation of its radiology department with the replacement of its existing cardiac catheterization unit, the acquisition of a second cardiac catheterization unit, and the addition of a second catheterization laboratory.
- c. **Current and Projected Utilization of Like Facilities in the Area:** The applicant submits that the proposed project does not propose for any additional services, but is proposing to acquire an additional cardiac catheterization unit and laboratory.
- d. **Probable Effect on Existing Facilities in the Area:** The applicant asserts that the renovation/expansion project will not have an adverse impact on any other provider of diagnostic cardiac catheterization services in Coahoma County. Furthermore, Delta Regional Medical Center which is located approximately 73.50 miles away from NWMRMC is the only other facility in cardiac catheterization/open-heart surgery planning area (CC/OHSPA) 3 providing cardiac catheterization services. Data from the *FY 2012 State Health Plan* reveals that Delta Regional Medical Center has two catheterization labs and the number of procedures performed in 2009 and 2010 were, 703 and 760, respectively. Additionally, the *Plan* indicates that NWMRMC has one catheterization lab and performed 601 and 429 diagnostic catheterization procedures for the same years, respectively.

The proposed project will not have an adverse impact on the existing facility in CC/OHSPA 3.

- e. **Community Reaction:** The application contains 41 letters of support for the project from citizens of Coahoma County and health care professionals. The endorsement letters express how the proposed project will aid in enhancing the quality of care at NWMRMC.

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

GR Criterion 6 - Access to the Facility or Service

- a. **Medically Underserved Population:** According to the applicant, all patients of the service area, including Medicaid recipients, charity/medically indigent patients, racial and ethnic minorities, women, handicapped persons and the elderly have access to the services of the facility.
- b. **Performance in Meeting Federal Obligations:** The applicant submits that NWMRMC has no obligations under any federal regulations requiring provision of uncompensated care, community service, or access by minority/handicapped persons.
- c. **Unmet Needs to be Served by Applicant:** The applicant states that the Hospital provides care to all persons regardless of their payor source or ability to pay.
- d. The applicant submits that the hospital is located in Clarksdale, the county seat for and the largest city in Coahoma County. According to the applicant, Delta Regional Medical Center is the only other provider of cardiac catheterization services in CC/OSSPA 3. Consequently, Delta Regional Medical Center is located almost 75 miles away from NWMRMC.

The Hospital operates Monday through Sunday, 24 hours per day.

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 Department of Health within 15 business days of request.

GR Criterion 8 - Relationship to Existing Health Care System

According to the applicant, NWMRMC is the only hospital in Coahoma County and one of two providers of cardiac catheterization services in CC/OHSPA 3. Therefore, the applicant does not believe the proposed project will have an adverse impact on existing health care facilities. However, the applicant does believe that failure to implement the proposed project would deny the citizens living in NWMRMC's service area the ability to access modern, state-of-the-art radiological services and quality healthcare. Furthermore, if the project is not implemented it would add to the disparity of healthcare in the Mississippi Delta.

The application contains a list of the Hospital's transfer/referral/affiliation agreements.

Because no new services will be offered as a result of this project, staff concludes that the project would have no adverse affect on other providers in CC/OHSPA 3.

GR Criterion 9 - Availability of Resources

The applicant asserts that no new personnel will be required and the number of full-time employees at the Hospital is within the acceptable range required to provide quality health care.

GR Criterion 10 – Relationship to Ancillary or Support Services

The applicant states that NWMRMC has all necessary support and ancillary services in place for this project and do not expect any increase or decrease in the use of such support services. Moreover, the applicant does not anticipate any changes in cost or charges, but if any increase in operating costs it will be minimal and primarily the result of the equipment lease payment, additional supplies, and depreciation cost.

GR Criterion 11 – Health Professional Training Programs

The applicant asserts that this criterion is not applicable to the proposed project.

GR Criterion 12 – Access by Health Professional Schools

The applicant asserts that this criterion is not applicable to the proposed project.

GR Criterion 14 - Construction Projects

- a. **Cost Estimate:** The application contains a cost estimate prepared by M.J. Harris Construction Services, LLC.
- b. **Schematic Drawing:** The application contains a schematic drawing of the renovation/expansion to the radiology department at NWMRMC.
- c. **Space Allocations:** The applicant submits that space will conform to applicable local and state or minimum licensing standards.
- d. **New Construction Projects:** This project involves 5,263 square feet of new construction and 1,120 square feet of renovation.
- e. **Cost per Square Foot:** According to the applicant, the proposed project involves approximately 5,263 square feet of new construction at an estimated cost of \$457.60 per square foot and approximately 1,120 square feet of renovation at an estimated cost of \$314.08 per square foot. Staff calculations concluded that the cost per square foot for new construction will be \$455.71 and \$322.99 for renovation (see Attachment 2). The *Means Construction Cost Data, 2012 Edition*, does not compare costs for renovation; however, it lists the range for new construction from \$192 per square foot to \$325 per square foot. The new construction cost per square

foot for the proposed project exceeds the ¾ range when compared to hospital projects listed in the *Means Construction Cost Data, 2012 Edition*.

GR Criterion 16 - Quality of Care

The applicant states that NWMRMC has a track record of providing high quality health care services to its patients and is evidenced by its accreditation by the Joint Commission on Accreditation of Health Care Organizations. 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	\$1,890,465	48.67%
b.	Construction Cost -- Renovation	297,375	7.66%
c.	Capital Improvements	0	0
d.	Total Fixed Equipment Cost	56,895	1.46%
e.	Total Non-Fixed Equipment Cost	1,049,194	27.01%
f.	Land Cost	0	0
g.	Site Preparation Cost	205,401	5.29%
h.	Fees (Architectural, Consultant, etc.)	180,000	4.63%
i.	Contingency Reserve	130,000	3.35%
j.	Capitalized Interest	0	0
k.	Other (ICRA procedures, building permit)	74,884	1.93%
	Total Proposed Capital Expenditure	\$3,884,214	100%

The applicant proposes to renovate and expand its radiology department. Additionally, the applicant proposes to replace its cardiac catheterization unit with a new unit (Allura Xper FD20) and add another refurbished unit, as back-up equipment, (Ibis FD9) to a second cardiac catheterization lab.

Specifics on the total square footage for new construction are listed under GR Criterion 14 as well as the cost comparison to the *Means Building Construction Cost Data, 2012 Edition*.

B. Method of Financing

The applicant proposes to finance the estimated \$3,844,214 capital expenditure from its accumulated cash reserves. The application contains audited financial statements of HMA, the sole member and manager of Clarksdale HMA, LLC. The report documents the applicant’s ability to undertake the proposed project. Furthermore, the application contains a signed statement from the Vice President and Treasurer of Health Management Associates, the parent company of Clarksdale HMA, LLC, committing to fund the project, if required.

C. Effect on Operating Cost

The applicant projects gross revenues of \$375,437,182, \$393,406,586, and \$412,689,556, the first, second, and third year of operation, respectively; and expenses of \$49,833,632, \$50,002,422, and \$50,071,516. Utilization, cost, and charges are included in the Hospital’s Three-Year Projected Operating Statement (see Attachment 1).

D. Cost to Medicaid/Medicare

Based on the applicant’s projections, the cost to third party payors the first year of operation is as follows:

Patient Mix by Type Payer	Utilization Percentage	First Year Revenue
Medicaid	26%	\$ 97,901,580
Medicare	41%	154,268,446
Commercial	22%	81,470,023
Self Pay	1%	3,966,161
Charity Care	9%	33,339,994
Other	1%	4,490,978
Total	100%	\$375,437,182

NWMRMC projects medically indigent/charity care at 7 percent and charity care at 2 percent of gross revenue.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid estimates that approval of this application will increase annual cost to Medicaid by \$181,481 for inpatient hospital services and 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 construction, renovation, expansion, or capital improvements involving a capital expenditure in excess of \$2,000,000, replacement of health care facilities, and addition of hospital beds as contained

in the *FY 2012 State Health Plan*; the *Mississippi Certificate of Need Review Manual, Revised September 1, 2011*; 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 this application submitted by the applicant for the renovation and expansion of Northwest Regional Medical Center's radiology department.

Attachment 1

Clarksdale HMA, LLC d/b/a Northwest Regional Medical Center Radiology Department Renovation/Expansion Project Three-Year Operating Statement (With Project)			
	Year 1	Year 2	Year 3
Revenue			
Patient Revenue:			
Inpatient	\$227,549,142	\$238,926,599	\$250,872,929
Outpatient	147,888,040	154,479,987	161,816,627
Total Gross Patient Revenue	<u>\$375,437,182</u>	<u>\$ 393,406,586</u>	<u>* \$412,689,556</u>
Charity Care	\$33,339,993	\$35,006,994	\$36,757,343
Deductions from Revenue	<u>258,541,811</u>	<u>273,815,841</u>	291,203,203
Net Patient Care Revenue	<u>* \$83,555,378</u>	<u>* \$ 84,583,751</u>	<u>* \$ 84,729,010</u>
Other Operating Revenue	\$4,490,978	\$3,800,000	\$3,800,000
Total Operating Revenue	<u>* \$ 88,046,356</u>	<u>* \$ 88,383,751</u>	<u>* \$ 88,529,010</u>
Expenses			
Operating Expenses:			
Salaries	\$ 23,893,907	\$ 23,960,143	\$ 23,972,463
Benefits	6,133,188	6,150,189	6,153,352
Supplies	8,455,312	8,511,810	8,559,809
Services	6,269,465	6,286,844	6,290,077
Lease	1,323,741	1,326,552	1,327,075
Depreciation	3,353,019	3,361,884	3,363,532
Interest	405,000	405,000	405,208
Other	0	0	0
Total Expenses	<u>\$ 49,833,632</u>	<u>\$ 50,002,422</u>	<u>* \$ 50,071,516</u>
Net Income (Loss)	<u>* \$ 38,212,724</u>	<u>* \$ 38,381,329</u>	<u>* \$ 38,457,494</u>
Assumptions			
Inpatient Days	22,387	23,000	23,000
Outpatient Visits	55,014	57,765	58,920
Procedures	4,940	5,188	5,302
Charge per outpatient day	\$ 2,688	\$ 2,674	\$ 2,746
Charge per inpatient day	\$ 10,164	\$ 10,388	\$ 10,908
Charge per procedure	\$ 75,999	\$ 75,837	\$ 77,838
Cost per inpatient day	\$ 2,226	\$ 2,174	\$ 2,177
Cost per outpatient day	\$ 906	\$ 866	\$ 850
Cost per procedure	\$ 10,088	\$ 9,639	\$ 9,444

*Amount(s) are off by \$1 due to rounding.

Clarksdale HMA, LLC d/b/a Northwest Regional Medical Center
Radiology Department Expansion/Renovation Project
Attachment 2
Computation of New Construction and Renovation Cost*

	Cost Component	Total	New Construction	Renovation
A	New Construction Cost	\$1,890,465	\$1,890,465	
B	Renovation Cost	\$297,375		\$297,375
C	Total Fixed Equipment Cost	\$56,895	\$46,912	\$9,983
	Total Non-Fixed Equipment Cost	\$1,049,194		
	Land Cost	\$0	\$0	
D	Site Preparation Cost	\$205,401	\$205,401	
E	<i>Fees (Architectural, Consultant, etc.)</i>	\$180,000	<i>\$148,416</i>	<i>\$31,584</i>
F	<i>Contingency Reserve</i>	\$130,000	<i>\$107,189</i>	<i>\$22,811</i>
G	<i>Capitalized Interest</i>	\$0	<i>\$0</i>	<i>\$0</i>
	<i>Other(ICRA procedures, building permit, payment and performance bonds)</i>	\$74,884	<i>\$0</i>	
	Total Proposed Capital Expenditure	\$3,884,214	\$2,398,383	\$361,753
	Square Footage	6,383	5,263	1,120
	<i>Allocation Percent</i>		<i>82.45%</i>	<i>17.55%</i>
	Costs Less Land, Non-Fixed Eqt., Other	\$2,835,020	\$2,398,383	\$361,753
	Cost Per Square Foot	\$444.15	\$455.71	\$322.99
	Cost per Bed (n=60)			

*Source: Mississippi Certificate of Need Review Manual, Revised September 1, 2011.