

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
DECEMBER 2015**

**CON REVIEW HR-RC-1015-022
THE MISSISSIPPI METHODIST HOSPITAL AND REHABILITATION CENTER, INC.
D/B/A METHODIST REHABILITATION CENTER
RENOVATION OF 6th FLOOR, PATIENT AND NURSING AREA
LOCATION: JACKSON, HINDS COUNTY, MISSISSIPPI
CAPITAL EXPENDITURE: \$3,395,250**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

The Mississippi Methodist Hospital and Rehabilitation Center, Inc. d/b/a Methodist Rehabilitation Center (MRC) is a not-for-profit corporation, rehabilitation hospital in Jackson, Mississippi. The 124-bed facility (hospital) is a Level I Comprehensive Medical Rehabilitation Facility. The bed complement of Methodist Rehabilitation Center consists of 44 short-term acute care beds and 80 rehabilitation beds.

The applicant provided a Certificate from the Secretary of State, verifying that the corporation was issued a Charter/Certificate of Authority on May 27, 1969; the document was signed and dated on August 28, 2015 and indicates that Methodist Rehabilitation Center is in good standing with the State of Mississippi.

The Methodist Rehabilitation Center is governed by twenty-one officers and directors, and is certified to participate in the Medicaid and Medicare programs.

B. Project Description

Methodist Rehabilitation Center requests Certificate of Need (CON) authority to renovate 18,500 square feet of its sixth floor patient and nursing area. The proposed renovation will involve painting, new flooring, ceiling tile, remolded patient areas, administrative areas, plumbing, and remodeling the nursing station and new furniture.

The applicant asserts in the sixth floor of the Methodist Rehabilitation Center is outdated, in need of repair and modernizing. If the proposed project is approved, MRC states that the renovation will continue to allow the facility to provide rehabilitation services in an updated space to enhance the patient's experience while receiving services.

Methodist Rehabilitation Center's asserts that no new services will be established or offered as part of the proposed project.

According to the applicant, there will be no additional FTE's (full-time equivalent employees) required for the proposed project. The applicant does not anticipate any staffing issues as a result of the cosmetic renovations and upgrades for sixth floor at MRC.

The application contained a signed document from MRC's Chief Financial Officer attesting to the financial feasibility of the project. The total proposed capital expenditure is \$3,375,250.00 (See Expenditure Summary for complete percentage breakdown of project). The applicant indicates the proposed capital expenditure will be obligated within 30 days of CON approval and the proposed project will be completed within 12 months of the proposed project starting date.

The applicant indicates that the proposed capital expenditure will be funded from hospital cash reserves.

The MSDH Division of Health Facilities Licensure and Certification approved the site for the project on September 3, 2015.

II. TYPE OF REVIEW REQUIRED

The Mississippi State Department of Health reviews applications for construction, renovation, expansion, or capital expenditure 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 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 January 11, 2016.

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

A. State Health Plan (SHP)

The *FY 2015 Mississippi State Health Plan (MSHP)* contains criteria and standards which the applicant is required to meet before receiving CON authority for construction, renovation, and the acquisition of major medical equipment. This application is in compliance with applicable criteria and standards.

SHP Criterion 1- Need

The applicant states that the sixth floor of the Methodist Rehabilitation Center is outdated, in need of repair and modernizing. MRC believes that the proposed renovation will enhance the patient's experience while receiving services and continuing to allow the facility to provide rehabilitation services in an updated space.

The applicant states the Methodist Rehabilitation Center is not adding additional beds or other services; however, the hospital is only proposing to renovate the facility. Thus, this project will not have an adverse impact on existing rehabilitation facilities in the State of MS.

SHP Criterion 2 - Bed Service Transfer/Reallocation/Relocation

The applicant asserts that this project does not involve transfer/reallocation/relocation of beds to another facility within Hinds County or the State of Mississippi; thus, this criterion is not applicable to the proposed project.

SHP Criterion 3 - Charity/Indigent Care

The rehab facility has served patients who cannot financially meet their obligation to pay for services rendered; thus, the hospital affirms that it will continue to provide a "reasonable amount" of indigent/charity care as described in Chapter I of the *FY 2015 MSHP*.

SHP Criterion 4 - Cost of Proposed Project

Staff determined that the *2015 Means Construction Cost Data* publication lists the following cost ranges per square foot associated with hospital construction: low - \$206, median - 258, and high - \$355 per square foot. The *Means Construction Cost Data publication for 2015*, does not compare costs for renovation projects; however, the applicant states that the cost to renovate 18,500 square feet of space in the existing hospital will be \$149.47 per square foot. Based on the formulas listed in the *FY 2015 MSHP*, staff determined the renovation costs per square foot and it is captured in Attachment 2 of this document

The applicant affirms that the proposed project does not involve new construction.

SHP Criterion 5 - Floor and Area Specifications

Methodist Rehabilitation Center proposes to renovate 18,500 square feet of its sixth floor patient and nursing area. The proposed renovation will involve painting, new flooring, ceiling tile, remolded patient areas, administrative areas, plumbing, and remodeling the nursing station and new furniture.

The applicant asserts that the sixth floor of the Methodist Rehabilitation Center is outdated and is need of repair and modernizing. The applicant affirms that the proposed project seeks to provide an up-to-date area that will be more efficient for treatment at the Methodist Rehabilitation Center.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, 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 project is in substantial compliance with all criteria, standards, and policies of the *FY 2015 Mississippi State Health Plan* applicable to the construction, renovation, and expansion projects.

GR Criterion 2 - Long Range Plan

Methodist Rehabilitation Center affirms that the proposed project is consistent with the applicant's long-range plans of providing quality comprehensive rehabilitation services to its patients.

GR Criterion 3- Availability of Alternatives

The applicant states that MRC considered not undertaking the proposed renovation and continuing to use the outdated space as an option. The applicant further states that in order to maintain MRC's goal of providing specialized rehabilitation services in the state of Mississippi, the best alternative would be to utilize the existing space by renovating the sixth floor to improve the quality of care for its patients.

No new construction is associated with the proposed project.

GR Criterion 4 - Economic Viability

The applicant provided a three-year projected operating statement and it indicates that the total operating revenue over a projected three year period shows an increase from \$55,875 to \$211,607. In addition, the statement reflects net incomes as a loss for the projected first and second year. The total operating revenue over a projected three-year period, any income increases or decreases or net losses are shown in Attachment 1 of this document.

The capital expenditure of the proposed project is more than \$2,000,000 and Methodist Rehabilitation Center provided a financial feasibility study attesting to the financial feasibility of the project.

GR Criterion 5 - Need for the Project

- a. **Access by Population Served:** Methodist Rehabilitation Center asserts that all patients, including those that are medically underserved, will continue to have access to services. The applicant asserts that MRC’s patients generally have a long length of stay thus, the modernization of this area will help with patient satisfaction as well as improve the hospital’s efficiency.
- b. **Relocation of Services:** The project does not propose the relocation of services outside the existing facility. The proposed project involves the renovation and cosmetic upgrades to 18,500 square feet of its sixth floor patient and nursing area at Methodist Rehabilitation Center. The proposed project is not proposing to add any additional facilities or services to Hinds County or in the State of MS.
- c. **Community Reaction:** The application includes several letters of support for the proposed project. The endorsement letters express how the proposed project will aid in enhancing the quality of care at Methodist Rehabilitation Center. The MS Department of Health received no letters of opposition concerning the proposed project.

GR Criterion 6 - Accessibility

Methodist Rehabilitation Center submits that 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 hospital. The applicant asserts that it currently treats medically indigent patients, a subset of the self-pay patient population, and will continue to do so during and after the proposed project is completed.

The following table shows the historical data provided to charity care patients for the last two years as well as the projected amounts for the two years following completion of the proposed project.

Gross Patient Revenue (GPR)

	GPR %	Charity Care Patients Dollar Amount
Historical Year 2013	2.2%	\$814,540
Historical Year 2014	1.0%	\$500,000
Projected Year 1	9.0%	\$4,232,942
Projected Year 2	9.0%	\$4,317,601

The applicant suggests that the significant increase in charity care is a result of University Rehabilitation closing on September 30, 2014.

GR Criterion 7 - Information Requirement

The applicant affirms that Methodist Rehabilitation Center will record and maintain the information required by this criterion and shall make the data available to the Mississippi Department of Health within fifteen (15) business days of request.

GR Criterion 8 - Relationship to Existing Health Care System

The applicant states that the specialized services offered by Methodist Rehabilitation Center are not offered by any other hospital in the service area. The applicant states that Methodist Rehabilitation Center does not anticipate treating a different segment of the population than it currently treats. Therefore, the applicant believes that the proposed project will not have an adverse impact on existing facilities in Hinds County or the State of MS.

If the proposed project is not approved, Methodist Rehabilitation Center states that the facility will have to continue to provide rehab services in an outdated patient area.

Methodist Rehabilitation Center asserts that there are no transfer/referral or affiliation agreements associated with this renovation/upgrade project.

Because no new services will be offered as a result of this project, staff concludes that this project would not have an adverse affect on other providers in the referenced service area.

GR Criterion 9 - Availability of Resources

The applicant does not anticipate hiring any new or additional FTE's as a result of the proposed project. Methodist Rehabilitation Center states that historically they have always maintained sufficient staffing to provide its specialized services. Methodist Rehabilitation Center further states that in the event that additional FTE's are needed, Methodist will continue to recruit staff through traditional or normal resource techniques.

GR Criterion 10 - Relationship to Ancillary or Support Services

The applicant asserts that Methodist Rehabilitation Center has necessary support and ancillary services. Thus, the proposed renovation project is not expected to have an adverse effect upon the delivery of ancillary health services nor change the cost and charges of those services.

GR Criterion 11- Health Professional Training Programs

The applicant asserts that Methodist Rehabilitation Center works with area health professional training schools, including but not limited to the University of MS Medical Center, to provide clinical training. The applicant states that the renovation project will not have an effect upon the health professional training programs in Hinds County and in the State of MS.

GR Criterion 12- Access by Health Professional Schools

The applicant lists the same information for Criterion 12 as Criterion 11 regarding access by health professional schools. The applicant further asserts that the proposed project will have no effect on the school agreements.

GR Criterion 13- Provision of Service in Service Areas

Methodist Rehabilitation Center affirms that all patients will continue to have access to its rehab services in Hinds County as well as the facility service area, the State of MS. The applicant did not list any special needs or circumstances that should be considered relating to this criterion.

GR Criterion 14 - Construction Projects

The application contains a cost estimate prepared by Canizaro Cawthorn Davis Architects and a schematic drawing concerning the proposed project. The applicant submits that space will conform to applicable local and state licensing standards.

This project does not involve new construction. The proposed project involves 18,500 square feet of renovation space. *RSMeans Building Construction Cost Data 2015 Edition* does not compare costs of renovation projects; however the publication lists the cost of new construction for hospitals as: from \$206, 258, and \$355 per square foot.

The applicant states that the cost to renovate 18,500 square feet of the existing building will be \$149.47 per square foot; however, staff calculates \$93.34 as the cost per square foot. Thus, the renovation cost is closer to the construction cost of the low range - \$206 from the *RSMeans Building Construction Cost Data 2015 Edition*.

Based on the specifics presented in the application and the construction/ renovation formula listed in the *FY 2014 MSHP*, costs per square foot are shown in Attachment 2 of this analysis.

GR Criterion 15 – Competing Applications

There are no competing applications; therefore no additional information is required to adhere to this criterion.

GR Criterion 16 - Quality of Care

The applicant states that Methodist Rehabilitation Center has a history of providing services to the area and the state for many years focusing on traumatic injuries and severely disabled patients.

Methodist Rehabilitation Center 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 certified for participation in the Medicare and Medicaid programs.

The applicant believes that by renovating the sixth floor of the existing facility, Methodist will provide an up-to-date and modern treatment area for the use by patients that have suffered traumatic injuries and are need of rehabilitation services.

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.	Renovation Cost	\$ 2,400,250	70.69%
c.	Capital Improvements	\$ 0	0.00%
d.	Total Fixed Equipment Cost	\$ 610,000	17.97%
e.	Total Non-Fixed Equipment Cost	\$ 0	0.00%
f.	Land Cost	\$ 0	0.00%
g.	Site Preparation Cost	\$ 0	0.00%
h.	Fees (Architectural, Consultant, etc.)	\$ 165,000	4.86%
i.	Fees (Legal & Accounting)	\$ 20,000	0.59%
j.	Contingency Reserve	\$ 200,000	5.89%
k.	Capitalized Interest	\$ 0	0.00%
l.	Other Cost	\$ 0	0.00%
	Total Proposed Capital Expenditure	\$ 3,395,250	100.00%

Information pertaining to the cost per square feet for the proposed renovation is listed under GR Criterion 14 – Construction Project.

B. Method of Financing

The applicant indicates that the proposed capital expenditure with be funded from hospital cash reserves.

C. Effect on Operating Cost

The Hospital's three-year projected operating statement is presented at Attachment 1.

D. Cost to Medicaid/Medicare

The applicant projects the cost to third party payors as follows:

Payor Mix	Utilization Percentage (%)	First Year Revenue (\$)
Medicare	49%	24,111,147
Medicaid	13%	6,333,452
Commercial	29%	14,360,925
Self Pay	0%	0
Charity Care	9%	4,253,692
Other	1%	256,845
Total	100.00%	49,316,061

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for comment. The Division of Medicaid states that as of September 1, 2012, the Division changed the methodology by which they reimburse outpatient services so that the cost incurred subsequent to that date will no longer affect outpatient payments.

The Division of Medicaid further states that effective October 1, 2012, the Division changed the methodology by which they reimburse inpatient services so that the cost incurred subsequent to that date will only affect outlier payments. The Division affirms that the estimated increase in cost outlier payments resulting from the proposed CON cannot be determined at this time. Therefore, the Division of Medicaid opposes the transaction of the proposed 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 contained in the *FY 2015 Mississippi State Health Plan*; the *Mississippi Certificate of Need Review Manual, 2011 Revision*; 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 Mississippi Methodist Hospital and Rehabilitation Center, Inc. d/b/a Methodist Rehabilitation Center for the renovation of the 6th floor, patient and nursing area.

Attachment 1

Methodist Rehabilitation Center Three-Year Operating Statement (with Project)			
	Year 1	Year 2	Year 3
Revenue			
Inpatient Care Revenue	\$ 49,316,061	\$ 50,548,962	\$ 51,812,686
Outpatient Care Revenue	0	0	0
Gross Patient Revenue	\$ 49,316,061	\$ 50,548,962	\$ 51,812,686
Charity Care	275,750	278,508	281,293
Deductions from Revenue	19,377,994	19,862,444	20,359,005
Net Patient Revenue	\$ 29,662,317	\$ 30,408,010	\$ 31,172,388
Other Operating Revenue	-	-	-
Total Operating Revenue	\$ 29,662,317	\$ 30,408,010	\$ 31,172,388
Operating Expenses			
Salaries	\$ 19,751,550	\$ 20,146,581	\$ 20,549,513
Benefits	4,335,706	4,422,420	4,510,868
Supplies	2,650,163	2,703,166	2,757,230
Services	1,481,156	1,510,779	1,540,995
Lease	0	0	0
Depreciation	1,493,703	1,582,581	1,596,143
Interest	5,914	5,973	6,032
Other	0	0	0
Total Expenses	\$ 29,718,192	\$ 30,371,501	\$ 30,960,782
Net Income (Loss)	(55,875)	36,510	211,607
	Proposed Year 1	Proposed Year 2	Proposed Year 3
Inpatient days	\$ 20,171	\$ 20,574	\$ 20,985
Outpatient days	0	0	0
Procedures	0	0	0
Charge/outpatient day	0	0	0
Charge per inpatient day	2,445	2,457	2,469
Charge per procedure	0	0	0
Cost per inpatient day	1,473	1,476	1,475
Cost per outpatient day	0	0	0
Cost per procedure	0	0	0

Attachment 2

**CON Review Number: HG-RC-1015-022
 Methodist Rehabilitation Center
 Computation of Renovation Cost**

Cost Component	Total	New Construction	Renovation
New Construction Cost	\$0	\$0	\$0
Renovation Cost	\$2,400,250	\$0	\$2,400,250
Total Fixed Equipment Cost	\$610,000	\$0	\$610,000
Total Non-Fixed Equipment Cost	\$0	\$0	\$0
Land Cost	\$0	\$0	\$0
Site Preparation Cost	\$0	\$0	\$0
<i>Fees (Architectural, Consultant, etc.)</i>	\$165,000	\$0	\$165,000
<i>Contingency Reserve</i>	\$200,000	\$0	\$200,000
<i>Capitalized Interest</i>	\$0	\$0	\$0
<i>Legal and Accounting Fees</i>	\$20,000	\$0	\$20,000
Total Proposed Capital Expenditure	\$3,395,250	\$0	\$3,395,250
Square Footage	36,376		36,376
<i>Allocation Percent</i>		0.00%	100.00%
Costs Less Land, Non-Fixed Eqt., Other	\$3,395,250	\$0	\$3,395,250
Cost Per Square Foot	\$93.34	\$0.00	\$93.34

Source: Mississippi Certificate of Need Review Manual, Revised 2011 and FY 2015 MSHP.