

**MISSISSIPPI STATE DEPARTMENT OF HEALTH  
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT  
AUGUST 2016**

**CON REVIEW HG-RC-0616-011  
SOUTH CENTRAL REGIONAL MEDICAL CENTER  
EXPANSION/MOB  
(EXPANSION OF AN EXISTING FACILITY AND  
CONSTRUCTION OF A MEDICAL OFFICE BUILDING)  
CAPITAL EXPENDITURE: \$35,000,000.00  
LOCATION: LAUREL, JONES COUNTY, MISSISSIPPI**

**STAFF ANALYSIS**

**I. PROJECT SUMMARY**

**A. Applicant Information**

South Central Regional Medical Center (“SCRMC”) is a major medical center located at 1220 Jefferson Street, Laurel, Mississippi 39440. The entity currently owns and operates a 285-licensed bed facility (275 acute care beds, 18 of which are geriatric psych beds, 10 chemical dependency unit beds). South Central Regional Medical Center has seven Board of Trustees members. On January 01, 2016 the Mississippi State Department of Health presented South Central Regional Medical Center with a Hospital License for the calendar year of 2016.

The occupancy rates, average lengths of stay (ALOS) and the Medicaid utilization rates for the three most recent fiscal years for South Central Regional Medical Center are shown below:

**South Central Regional Medical Center Utilization Data**

<b>Fiscal Year</b>	<b>Occupancy Rate (%)</b>	<b>ALOS (Days)</b>	<b>Medicaid Utilization Rate (%)</b>
2013	64.59	4.60	70.70
2014	49.94	4.66	71.10
2015*	NA	NA	NA

\*NA denotes Not Available.

Source: Division of Health Facilities, Licensure and Certification

**B. Project Description**

South Central Regional Medical Center (“SCRMC”) requests Certificate of Need (CON) authority for the expansion of its existing facility and the construction of a medical office building (MOB). The proposed project will consist of constructing 67,980 square feet of space to the east of the hospital to house a new emergency

department, the relocation of a 20 bed orthopedic surgery nursing unit and the construction of a 67,815 square feet medical office building to be located on the east side the of proposed, newly constructed emergency department. SCRMC indicates 188,900 square feet of a new parking area and paved heliport area will be included in the proposed project.

Below are the specifics relating to the proposed expansion of the hospital and the construction of the MOB:

**ER Addition: 67,980 sq. ft.**

- 1<sup>st</sup> Floor - ER
- 2<sup>nd</sup> Floor - Orthopedic Unit
- Shell

**Medical Office Building: 67,815 sq. ft.**

- 1<sup>st</sup> Floor -Wellness
- 2<sup>nd</sup> Floor -Orthopedic
- 3<sup>rd</sup> Floor -Shell
- 4<sup>th</sup> Floor -Shell

SCRMC further states the medical office building will contain a wellness center and an outpatient therapy facility on its first floor. The new structures are to be built out for persons to immediately occupy the first two floors with the hospital expansion phase of the proposed project. Also, the hospital expansion and the medical office building will be connected by an elevated walkway connecting the second floor of the two structures.

The applicant states that the additional component of this proposed project will be modifications to an existing space in the hospital that will be vacated by moving into the proposed expansion (the "backfill"). Also, the emergency department will vacate its existing area, which is approximately 16,800 square foot of space and move into the first floor of the hospital expansion component of the project. Therefore, twenty acute care beds will be located approximately 8,000 square feet of the west wing of the hospital, which is currently being used as an orthopedic surgery-nursing unit. It will be relocated to the second floor of the hospital expansion component of the project.

The applicant states that the space vacated by the 20 bed orthopedic surgery-nursing unit will be utilized for an additional nursing unit. In addition, the site development costs of the new drive between the emergency department expansion space and the medical office building for the emergency department access will improve traffic circulation, along with the creation of 300 additional parking spaces on the adjacent site of the medical office building (MOB).

The applicant asserts South Central Regional Medical Center already owns the land on which this project is to be located. The applicant contends that South Central Regional Medical Center was built in 1952 to serve Laurel, Jones County, Mississippi

and surrounding areas. The applicant states that in order to meet its long range planning goals and to continue to meet the needs of its patients, SCRMC's board of trustees has determined that it is necessary to expand the hospital, diversify its medical staff to accommodate its growing emergency department caseload and address the demands for a more technologically specific and new readily medical office building to accommodate its growing medical staff. The applicant states that 1,538.4 FTEs (Full-Time Equivalents) or personnel will increase to 1,538.9 FTEs and will be required for the proposed project.

The applicant provided a schematic drawing to show how the proposed expansion and construction will look. A signed cost estimate and details about the construction from the architect were provided in the cost estimate. SCRMC indicates the total capital expenditure for the proposed project will be \$35,000,000. The application includes a capital expenditure summary, confidential audited financial statements and a financial feasibility statement from its CPA asserting that SCRMC has sufficient capital to fund the project.

The MSDH, Division of Health Facilities Licensure and Certification issued a letter dated May 31, 2016 approving the site for the Expansion/MOB project.

The applicant indicates the proposed capital expenditure will be funded with a loan from the USDA. Upon CON approval, the applicant anticipates that the capital expenditure will be obligated immediately and the project will be completed within 60 months.

## II. TYPE OF REVIEW REQUIRED

This project is reviewed in accordance with Sections 41-7-173, 41-7-191 (1)(j), and 41-7-193 of the Mississippi Code 1972, Annotated, as amended, and duly adopted 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 10 days of publication of the staff analysis. The opportunity to request a hearing expires on August 10, 2016.

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

### A. State Health Plan (SHP)

The applicant affirmed that the proposed project will promote Mississippi's health planning purpose as set forth in the *Mississippi State Health Plan (MSHP or Plan)*, including the following:

- To improve the health of Mississippi residents;

- To increase the accessibility, acceptability, continuity, and quality of health services;
- To prevent unnecessary duplication of health resources; and
- To provide some cost containment.

The *FY 2015 Mississippi State Health Plan (MSHP or 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 substantial compliance with the applicable criteria and standards stated in the *Plan* as follows:

***Certificate of Need Criteria and Standards for Construction, Renovation, Expansion, Capital Improvements, Replacement of Health Care Facilities, and Addition of Hospital Beds***

**SHP Criterion 3 – Need**

**Projects which do not involve the addition of acute care bed**

The applicants states that in order to meet its long range planning goals and continue to meet the needs of its patients, SCRMC's board of trustees has determined that the hospital's expansion and medical office building is needed in order to meet the needs of the community of Laurel, Jones County, Mississippi. South Central Regional Medical Center participates in the statewide trauma system by contributing payments to the trauma system as a Level III center.

**SHP Criterion 4 – Bed Service Transfer/Reallocation/Relocation:**

The applicant states that the proposed project does not propose a transfer, reallocation or a relocation of a service as a part of this expansion of the hospital.

**SHP Criterion 5 – Charity/Indigent Care**

The applicant states that SCRMC affirms that it will continue to provide a reasonable amount of indigent care.

**SHP Criterion 6 – Reasonable Cost**

South Central Regional Medical Center submits that the proposed project cost will fall within the range of previously approved MSDH projects. SCRMC affirms that the projected non-fixed equipment and fixed equipment costs are also reasonable when compared with the equipment costs of other hospital renovation and expansion projects filed with the MSDH.

### **SHP Criterion 7 – Floor Area and Space Requirements**

The gross square footage of the proposed project is 135,795 square feet and the applicant assets it is comparable to state and national norms for similar buildings.

The emergency room will consist of 67,980 square feet and the medical office building will consist of 67,815 square feet of space.

### **SHP Criterion 8 – Renovation vs. Replacement**

This project does not involve any renovations or the replacement of a healthcare facility. The backfill component of the proposed project is more appropriately described simply as facility improvements.

## **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 contained in the manual.

### **GR Criterion 1- Consistency with the *State Health Plan***

The project is in substantial compliance with the overall objectives of the *FY 2015 Mississippi State Health Plan*.

### **GR Criterion 2 – Long Range Plan**

The applicant states that the proposed project is consistent with the long range strategic plan adopted by the Board of Trustees of South Central Regional Medical Center for the provision of high quality, accessible, and efficient services to the communities and its surrounding areas. The proposed project goal is to provide quality, efficient, modern healthcare to all residents of Jones County Mississippi and surrounding area, which has been an ongoing goal and part of SCRMC's strategic plan.

### **GR Criterion 3 – Availability of Alternatives**

The applicant states it cannot continue operating as it has been without additional medical office space for physicians and without addressing its strained emergency department as a result of growing emergency department patient encounters. Failure to address these issues will obstruct the growth of those physician practices and specialties and will create unacceptable healthcare amenities for the patients they serve.

#### **GR Criterion 4 - Economic Viability**

The applicant asserts that charges for services will not change as a result of this project. SCRMC states that the proposed project is currently comparable to charges for similar services at other facilities in the area. The application includes a statement from SCRMC's CFO indicating that the proposed project will be financially feasible and the proposal should have no significant effect on the cost of providing healthcare services to the area by SCRMC. Also, the applicant indicates that the MOB portion of the project will not have an impact on procedure expenses and the impact on Medicaid will be negligible. Thus, SCRMC affirms the capital expenditure will not materially impact the cost of SCRMC.

#### **GR Criterion 5 - Need for the Project**

The applicant states that it is evidenced by SRMC's long term strategic plan, the provision and delivery of a complete healthcare system throughout the Laurel, Jones County and the South Central Mississippi area is a methodical priority of SCRMC. SCRMC states that the regarding acute care inpatient medical needs, the City of Laurel, Jones County and South Central Mississippi residents have been served by SCRMC for the past 60 years.

The MOB portion of the proposed project does not propose any new services or expansion of services. The applicant asserts that the expansion will consist of the creation of medical office space to support the successful practices of existing and recruited physicians. SCRMC asserts that the proposed project request CON authority to expand the emergency department and relocate a nursing unit from within the hospital. SCRMC states it will continue to provide a full range of services of high quality to its inpatient and outpatients.

#### **GR Criterion 6 - Access to the Facility or Service**

SCRMC states that the primary service area is a radius of approximately 25 miles from the hospital. The applicant states most patients and their families have means of transportation to the hospital and have been able to access acute care and outpatient care at SCRMC as needed. SCRMC asserts that patients have been able to utilize ambulance services to access healthcare at the facility.

SCRMC affirms that all persons in the service area will continue to have access to medical care and since significant portions of SCRMC area population have a high incidence of medical indigence, regular operational hours will be governed by the practices of its tenants. The expansion component of the project will be operated 24/7 365 days per year. Furthermore, the emergency only operational hours will be 24/7 365 days per year.

### **GR Criterion 7 - Information Requirement**

SCRMC affirmed that the facility 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**

SCRMC asserts there are no comparable services that exist in Jones County. The applicant states that eight other hospitals in General Hospital Service Area (GHSA) 8 also currently provide comparable emergency services. However, the applicant affirms Jones County residents primarily utilize SCRMC rather than migrating to other

hospitals in GHSA 8. SCRMC asserts that the applicant evaluated area information and states that the number of Forrest County-based practices and healthcare services are opening clinics/facilities in Jones County.

The applicant states that failure to approve the requested MOB project would adversely affect the ability to attract and retain physicians and could adversely affect the future projected productivity of the existing SCRMC medical staff members who have practices. Also, failure to implement the expansion component of the project will adversely affect the SCRMC emergency department and the patients it serves. Thus, the applicant believes patients may out-migrate to other communities.

The Department received three letters of support for the project. No letters of opposition concerning the proposed project were received.

### **GR Criterion 9 - Availability of Resources**

SCRMC asserts that the proposed project does not involve a new service, no additional personnel will be recruited or hired and SCRMC states it has sufficient physicians on staff and employees. The applicant states nursing and technical personnel needed to staff the emergency department and the nursing units will be relocated along with the relocation of those units within the facility. The applicant indicates that the MOB lease regarding clinic personnel is the responsibility of the tenants and historically, physician clinics in Laurel have generally been able to staff them sufficiently. SCRMC asserts that it has a satisfactory staffing history for years and with all healthcare providers, there is a shortage of nurses, which SCRMC has been able to address adequately in recent years.

### **GR 10 – Relationship to Ancillary or Support Services**

The applicant states all necessary support and the ancillary service is available for the existing emergency department services and will be available for the proposed emergency department addition. The applicant does not expect any changes in cost or charges for the proposed project.

#### GR Criterion 14 - Construction Projects

- a. **Cost Estimate:** The application contains a cost estimate prepared by a architect, licensed to do business in Mississippi.
- 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:** The proposed project involves 135,795 square feet of new construction.
- e. **Cost per Square Foot:** The cost of the construction proposed for the hospital expansion is \$10,739,400 and the applicant asserts the cost per square foot of \$157.98/square feet for new construction based on the formula listed in the *FY 2015 MSHP*. The applicant indicates the cost of the construction for the MOB is \$13,686,210 and that translates into a cost of \$201.82/square foot based on the same formula in the *Plan*.

Thus, the applicant states that the average construction cost for both of those components alone is \$179.87/square foot. The applicant estimates the cost of new construction will be \$220.82 per square foot, which is slightly above the high cost of projects listed in the *Means Building Construction Cost Data 2015, Edition* publication (see Attachment 2). Also, the book lists the new the construction cost range for medical office buildings as \$124 to \$190 per square foot. The proposed square footage regarding the proposed project will be closer to the high range cost.

#### GR Criterion 16 - Quality of Care

South Central Regional Medical Center is in compliance with the *Minimum Standards for the Operation of Mississippi Hospitals*, according to the MSDH, Division of Health Facilities Licensure and Certification. SCRMC states that the leasing physicians and physician practices are members of the hospital medical staff. Also, SCRMC affirms that each physician must undergo a rigorous credentialing process to ensure that only physicians of the highest level of competence and professionalism are permitted to practice and provide care to patients of SCRMC.



**IV. FINANCIAL FEASIBILITY**

**A. Capital Expenditure Summary**

<b>Cost Item</b>	<b>Estimated</b>	<b>% of Total</b>
Construction Cost -New	\$25,780,610	72.62%
Construction Cost-Renovation	0	0.00%
Capital Improvements, i.e. (minor painting and repairs, refurbishing)	0	0.00%
Total Fixed Equipment Cost	0	0.00%
Total Non-Fixed Equipment Cost*	5,500,000	15.49%
Land Cost	978,000	2.75%
Site Preparation Cost	0	0.00%
Fees (Architectural and Consultant Fees)	1,739,310	4.90%
Fees (Legal and Accounting)	13,750	0.04%
Contingency Reserve	617,015	1.74%
Capitalized Interest	871,315	2.45%
Other Cost (Consulting)	0	0.00%
Other Cost	-	0.00%
<b>TOTAL PROPOSED CAPITAL EXPENDITURE</b>	<b>\$35,500,000</b>	<b>100%</b>

\* The applicant indicates equipment is included in the construction cost.

The above capital expenditure reflects the proposed expansion of the existing facility and construction of a new medical office building. The proposed project involves approximately 135,795 square feet of new space at an estimated cost of \$220.82 per square foot (see Attachment 2). For more details regarding the construction cost, please see *General Review Criteria 14e*.

**B. Method of Financing**

The applicant proposes to finance the proposed capital expenditure with Loans from USDA.

**C. Effect on Operating Cost**

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

**Cost to Medicaid/Medicare**

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

<b>Payor Mix</b>	<b>Utilization Percentage (%)</b>	<b>First Year Revenue (\$)</b>
<b>Medicare</b>	48	\$ 168,914,303
<b>Medicaid</b>	25	69,552,948
<b>Commercial</b>	25	86,322,355
<b>Self Pay</b>	4	14,077,019
<b>Charity Care</b>	3	9,769,707
<b>Other</b>	<u>0</u>	<u>0</u>
<b>Total</b>	<b>100</b>	<b>\$ 348,636,332</b>

**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 has not provided a comment to the Department of Health as of July 29, 2016.

**VI. CONCLUSION AND RECOMMENDATION**

This project is in substantial compliance with the criteria and standards for construction, renovation, expansion, or capital improvements as contained in the *FY 2015 Mississippi State Health Plan*; Chapter 8 of the *Mississippi Certificate of Need Review Manual, 2011 Revision*; 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 the application submitted by South Central Regional Medical Center for the expansion of its existing facility (construction of new emergency department, relocation of a 20 bed orthopedic surgery nursing unit within the hospital) and the construction of a medical office building.

## Attachment 1

<b>South Central Regional Medical Center Expansion/MOB</b>			
<b>Three Year Operating Statement (with Project)</b>			
	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
<b>Revenue</b>			
Patient Revenue:			
Inpatient	\$ 130,556,475	\$ 130,600,522	\$ 130,646,550
Outpatient	<u>218,076,857</u>	<u>218,251,174</u>	<u>218,430,200</u>
<b>Gross Patient Revenue</b>	<b>\$ 348,636,332</b>	<b>\$ 348,851,696</b>	<b>\$ 349,076,750</b>
Charity Care	9,769,707	9,775,059	9,780,624
Deductions from Revenue	<u>187,275,019</u>	<u>187,760,699</u>	<u>188,250,607</u>
<b>Net Patient Revenue</b>	<b>\$ 151,591,606</b>	<b>\$ 151,315,938</b>	<b>\$ 151,045,519</b>
Other Operating Revenue	\$ 4,271,418	\$ 4,272,985	\$ 4,272,985
<b>Total Operating Revenue</b>	<b>\$ 155,863,024</b>	<b>\$ 155,588,923</b>	<b>\$ 155,318,504</b>
<b>Expenses</b>			
Operating Expenses:			
Salaries	\$ 74,732,510	\$ 74,733,473	\$ 74,734,474
Benefits	13,125,806	13,126,169	13,126,546
Supplies	24,897,354	24,897,354	24,897,354
Services	6,115,929	6,115,929	6,115,929
Lease	2,514,653	2,514,653	2,514,653
Depreciation	9,139,046	9,139,046	9,139,046
Interest	1,8810,538	1,854,950	1,828,500
Other	<u>21,083,043</u>	<u>21,083,043</u>	<u>21,083,500</u>
<b>Total Expenses</b>	<b>\$ 153,488,879</b>	<b>\$ 153,464,617</b>	<b>\$ 153,439,545</b>
<b>Net Income (Loss)</b>	<b>\$ 2,374,145</b>	<b>\$ 2,124,306</b>	<b>\$ 1,878,959</b>
<b>Assumptions</b>			
Inpatient days*	35,797	35,798	35,800
Outpatient days*	0	0	0
Procedures	291,732	292,642	293,592
Charge/outpatient day	\$ 0	\$ 0	\$ 0
Charge per inpatient day	\$ 3,647	\$ 3,648	\$ 3,649
Charge per procedure	\$ 1,195	\$ 1,192	\$ 1,189
Cost per inpatient day	\$ 4,288	\$ 4,287	\$ 4,286
Cost per outpatient day	\$ 0	\$ 0	\$ 0
Cost per procedure	\$ 526	\$ 524	\$ 523

Attachment 2

South Central Regional Medical Center  
 Expansion/MOB

	<u>Total</u>	<u>New Construction</u>	<u>Renovation</u>
<b>Cost Component</b>			
A	New Construction Cost	\$25,780,610	\$25,780,610
B	Renovation Cost	\$0	\$0
C	Total Fixed Equipment Cost	\$0	\$239,935
	Total Non-Fixed Equipment Cost	\$5,500,000	\$0
	Capital Improvement	\$0	
	Land Cost	\$0	\$0
D	Site Preparation Cost	\$978,000	\$978,000
E	Fees (Architectural, Consultant, etc.)	\$1,753,060	\$1,753,060
F	Contingency Reserve	\$617,015	\$617,015
G	Capitalized Interest	\$871,315	\$871,315
	<b>Total Proposed Capital Expenditure</b>	<b>\$35,500,000</b>	<b>\$30,239,935</b>

Square Footage	135,795	135,795	0
Allocation Percent		100.00%	0.00%

<b>Costs Less Land, Non-Fixed Eqt. &amp; Cap. Improvement</b>	<b>\$30,000,000</b>	<b>\$30,239,935</b>	<b>\$0</b>
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<b>Cost Per Square Foot</b>	<b>\$220.92</b>	<b>\$222.69</b>	<b>\$0.00</b>
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Source: Mississippi Certificate of Need Review Manual, Revised 2011 and FY 2015 MSHP.