

**DIVISION OF HEALTH PLANNING
AND RESOURCE DEVELOPMENT
AUGUST 2005**

**CON Review HG-RC-0505-012
King's Daughters Medical Center
EXPANSION/RENOVATION OF HOSPITAL
CAPITAL EXPENDITURE: \$11,322,393
LOCATION: BROOKHAVEN, LINCOLN COUNTY, MS**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

King's Daughters Medical Center (KDMC) is a 122- bed, short-term, general acute care, non-profit hospital operating under a long-term lease between Lincoln County, Mississippi, and King's Daughter Hospital (KDH). The long-term lease has been in effect since June 1, 1998; however, KDH has held a Charter of Incorporation since October 14, 1914. On May 18, 2005, KDMC received a Certificate of Existence/ Authority from the Secretary of State's Office indicating the facility is in good standing with the State of Mississippi.

KDMC is managed by Quorum Health Resources, LLC, a Delaware Limited Liability Company and presently governed by an 11-member Board of Trustees. The facility provides healthcare services and programs ranging from angiography to wellness programs. KDMC is certified to participate in the Medicare and Medicaid programs, and is accredited by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO).

The facility is licensed for 122 acute care beds, 109 beds are set up and staffed. The occupancy rates, average length of stay (ALOS), and Medicaid Utilization for the three most recent years are as follows:

Fiscal Year	Occupancy Rate (%)	ALOS (DAYS)	Medicaid Utilization Rate
2001	42.79	4.57	16.1
2002	37.46	4.48	20.4
2003	38.13	4.28	20.4

Source : Division of Health Facilities, Licensure and Certification, MDH

B. Project Description

King's Daughters Medical Center (KDMC) requests CON authority to expand/renovate 47,345 square feet of hospital space and construct 13,897 square feet of space designated for new additions to the facility. This will entail building structures to connect areas of the hospital to other areas of the facility. To ensure patients and hospital staff are not inconvenienced, KDMC will divide the project into seven phases to complete work on hospital floors one through three. The applicant anticipates contractors working on some areas simultaneously to complete their area of expertise prior to or by KDMC's intended deadline date.

Briefly, new construction will consist of creating a new emergency room, an eight-bed intensive care/cardiac care unit, a nurses' station, and rooms designated for 10 private beds. Also, space will be allocated for a staff lounge, storage area, laundry area, a pharmacy, and an emergency staircase. The expansion process will involve upgrading and installing a new sprinkler system, HVAC (heating, ventilating, and air conditioning) system, and reconfiguring the campus of the hospital. This will include upgrading the water/sewer system, creating new parking areas, constructing a new helicopter pad, and installing new electrical wiring.

In addition, the emergency department will be enlarged and ICU will be moved from that department and relocated to the third floor. The applicant states that areas on the first floor of the facility will be renovated to house the physical therapy department, respiratory therapy work, and storage area. The remaining second and third floors designated for obstetrics, nursing departments, and general medical surgical patient rooms involve cosmetic changes. Other square footage will be allocated for waiting areas,

conference rooms, entrances, and other department spaces needed to adequately operate units and departments within the facility.

Also, KDMC provided a letter from the architect to verify the estimated cost to complete the project. The applicant states that the cost of constructing /adding 13,894 square feet of new space to the existing building will be \$184.41 - \$199.83 per square foot. The cost to renovate 47,345 square feet of space to the existing building will be \$168.46 per square foot. Also, the applicant submitted an equipment list to describe the equipment which will be purchased. The equipment list indicates that the total non-fixed cost is \$1,015,801.01.

The applicant includes a capital expenditure summary, a three-year projected operating statement, and an Audited Financial Statement. The applicant states that the project will not involve changes in staffing; however, KDMC will continue to have contractual and transfer/referral/affiliation agreements with 13 clinically-related services and 23 colleges and health care providers. The facility received site approval from the Mississippi Department of Health, Division of Licensure and Certification. To fund the project, Lincoln County will issue money to KDMC by using hospital revenue bonds to secure a United States Department of Agriculture loan, and KDMC will use accumulated cash reserves. The completion of the project will take place within twelve to eighteen months upon the approval of the project.

II. TYPE OF REVIEW REQUESTED

The Mississippi Department of Health reviews applications for construction and renovation 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 September 7, 2005.

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

A. State Health Plan (SHP)

The *FY-2005 Mississippi State Health Plan* 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

KDMC states the hospital was constructed in 1964 and feels the 120,000 square foot facility must be modernized by adding space and expanding/renovating its existing facility to offer better healthcare to the residents in Lincoln County, General Hospital Service Area (GHSA) 3. From 1965 thru 1998, KDMC has taken steps to upgrade services by evaluating the needs of the patients and making appropriate changes to the facility.

Briefly, the applicant contends that parts of KDMC and floors one through three are in dire need of revamping. The applicant states the hospital would like to make the following changes to the facility to address the need for these changes:

- ❖ make the facility better accessible to patients and the staff
- ❖ construct a concrete landing pad for the helicopter and locate the pad within close proximity of the emergency room
- ❖ expand 4,226 square feet of space allocated to the emergency room/intensive care unit to create adequate space for acute care beds
- ❖ reconfigure and upgrade water/sewer, mechanical, and electrical systems

The applicant states that hospital administration, physicians, and staff managers discussed the current layout of the facility and provided drawings to help KDMC produce a master plan. In addition, the applicant employed a development group to provide KDMC with an architectural plan to embrace the hospital's long-term goals and visions. Based on recommendations submitted by KDMC staff, a Strategic Plan was developed in November 2002 to address redesigning the facility.

The applicant states the KDMC is not adding additional beds or services; however, the facility will participate in the state's trauma system as a Level IV provider. Thus, this project will not have an adverse impact on existing facilities in GHSA 3.

SHP Criterion 2 - Bed Service Transfer/Reallocation/Relocation

The applicant affirms that KDMC will meet all regulatory/licensure requirements for its beds and services.

SHP Criterion 3 - Charity/Indigent Care

The hospital has served patients who cannot financially meet their obligation to pay for services rendered; thus, the hospital does not limit access to services based on the ability to pay.

SHP Criterion 4 - Cost of Proposed Project

The applicant states that the cost of constructing 13,894 square feet of new space to the existing building will be \$184.41 - \$199.83 per square foot. The cost to renovate 47,345 square feet of space to the existing building will be \$168.46 per square foot. KDMC states in the CON application that the project does not exceed the median construction cost for renovation projects in the state of Mississippi.

SHP Criterion 5 - Floor and Area Specifications

The proposed project is comparable to both state and national norms for similar projects.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, 2000 revisions*, addresses general criteria by which all CON applications are reviewed. This application is in substantial compliance with general review criteria.

GR Criterion 2 - Long Range Plan

The long range development plan of the KDMC is to provide services in a state-of-the-art facility by providing adequate access and delivering quality health care to residents in GHSA 3.

GR Criterion 3- Availability of Alternatives

KDMC considered keeping the facility in its existing state and building a new facility. Both alternatives were rejected because the existing state of the facility does not provide proper access to critical departments, and the latter of the two would prove to be too costly. Thus, the applicant submits that expanding/renovating and adding new space to the facility are the only cost effective options available to offer better access and healthcare services.

GR Criterion 4 - Economic Viability

Based on revenue and volume projections listed in the three-year operating statement, the applicant's Chief Financial Officer submitted a letter stating the project will be financially feasible. Since this project involves the constructing new additions and expanding/renovating space, the applicant affirms that hospital charges will not change and hospital utilization statistics in GHSA 3 and surrounding hospitals are comparable to KDMC's projected utilization level of 35%.

GR Criterion 5 - Need for the Project

The KDMC states the facility will serve all patients in GHSA 3 without respect to race, color, age, sex, ethnicity, or ability to pay. KDMC will operate 7 days per week, 24 hours per day.

The applicant states there is a need to reconfigure and redesign the hospital to create a state of the art facility in order to provide quality service, health care, and better access to critical departments within the hospital. Since 1965, KDMC has made changes to the facility; however; those changes only remedied accommodation issues for a few years. With more residents visiting the hospital to receive healthcare, the areas of the hospital have become too small to handle the flow of patients. KDMC believes the facility must be upgraded and additional space must be added to accommodate the residents of GHSA 3.

The applicant asserts this project does not involve relocating the facility or service; thus, current and projected utilization of like facilities or services within GHSA 3 is not applicable to this criterion.

Since KDMC is not adding additional beds or services; the applicant affirms this project will not have an adverse impact on existing facilities in GHSA 3.

Thirty endorsement letters from various community officials were included in the CON application dated May 26, 2005. According to the applicant, the community officials recognize that the KDMC complies with all federal regulations regarding community service and supports KDMC's efforts to serve all patients in GHSA 3 regardless of race, creed, sex, or ability to pay.

GR Criterion 6 -Accessibility

As previously stated, KDMC states the facility will serve all patients in GHSA 3 without respect to race, color, age, sex, ethnicity, or ability to pay. KDMC will operate 7 days per week, 24 hours per day.

GR Criterion 7- Information Requirement

KDMC affirms that they 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 KDMC is only enhancing their facility and will continue to provide services to the community. Thus, this project will not have an adverse impact on existing facilities in GHSA 3.

GR Criterion 9 - Availability of Resources

The applicant states that KDMC will maintain a full complement of professional and support staff for the provisions of healthcare services within the facility.

GR Criterion 10 - Relationship to Ancillary or Support Services

The applicant asserts that the project is not expected to have an adverse effect upon the delivery of ancillary health services.

GR Criterion 14 - Construction Projects

The Board of Trustees held a meeting on May 24, 2005, and took appropriate action to apply for a CON in the amount of \$11,332,393. The architects and planners hired by the hospital submitted a cost estimate to show a proposed capital expenditure of \$11,332,393. The application includes an approval letter from the Division of Health Facilities Licensure and Certification

requesting site approval. The applicant includes a schematic drawing to show how the hospital will look after the expansion and renovation process has been completed.

In addition, the applicant states that the project complies with state and local building codes, zoning ordinances, and all appropriate regulatory authorities. The applicant has provided written assurance that KDMC will comply with state statutes and regulations for the protection of the environment.

Since hospital officials and consultants opted to modernize the current hospital, a formula calculation was used by the hospital to show how much the proposed project will cost per square foot. The applicant states that the cost of constructing 13,894 square feet of new space to the existing building will be \$184.41 - \$199.83 per square foot. The cost to renovate 47,345 square feet of space to the existing building will be \$168.46 per square foot.

The applicant did not list a separate cost to expand/renovate existing hospital space; however, WGH included the renovation cost in the new construction cost to equal a projected cost of \$8,083,640. The cost per bed is within the median range for hospitals of this size as listed in book titled *Building Construction Cost Data FY 2005*. According to the *Means Construction Cost Data*, the median cost for hospitals this size is \$171,500 per bed, and \$181 per square foot. Based on the numbers provided by the applicant and the new construction/renovation formula listed in the *Plan*, staff contends it will cost \$168.15 per square foot to complete the project. The cost is within the range for construction costs.

GR Criterion 16 - Quality of Care

The facility is certified to participate in the Medicare and Medicaid programs and participates with the Joint Commission on Accreditation of Healthcare Organizations (JCAHO). Under Hill Burton regulations, the hospital provides services to uninsured patients and is in compliance with all requirements in Section 504 of the Rehabilitation Act of 1974 and the Americans with Disabilities Act.

The applicant states that KDMC has a history of providing quality care to residents in the area. To ensure that quality care is not compromised in any way, the hospital implemented a plan of care to monitor their healthcare system to make sure patients are served in the most efficient and effective way possible with resources available.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

Cost Item	Projected Cost	% of Total
Construction Cost - New	\$ 8,083,640.00	71.33%
Construction Cost - Renovation	included above	unknown
Capital Improvements	-	0.00%
Total Fixed Equip Cost	172,000.00	1.52%
Total Non-Fixed Equip Cost	1,015,801.01	8.96%
Land Cost	-	0.00%
Site Prep Cost	116,898.00	1.03%
Fees	754,000.00	6.65%
Contingency Reserve	820,054.00	7.24%
Capitalized Interest	350,000.00	3.09%
Other Cost	20,000.00	0.18%
Total Proposed Expenditures	\$ 11,332,393.01	100.00%

B. Method of Financing

To fund the project, Lincoln County will issue money to KDMC by using hospital revenue bonds to secure a United States Department of Agriculture loan and KDMC will use accumulated cash reserves. Audited financial statements demonstrate that KDMC has sufficient cash reserves to fund the project.

C. Effects on Operating Costs

The applicant projects gross patient revenue of \$96,979,812, \$100,859,004, and \$104,893,364 the first, second, and third year of operation, respectively, and expenses of \$44,381,582, \$45,189,869, and \$46,675,393 for the first three years of operation. Utilization, cost, and charges are included in the applicant's Three-Year Projected Operating Statement (See Attachment 1).

D. Cost to Medicaid/Medicare

Patient Mix	Utilization Percentage	First Year Increased Cost (Project Only)
Medicare	31.2%	\$ 1,194,074
Medicaid	22.5%	861,111
Other Payors	<u>46.3%</u>	<u>1,771,975</u>
Total	100.0%	\$ 3,827,159
KDMC projects 6.2% percent bad debt. Medically indigent, and charity care are approximately 0.7% of gross patient revenues.		

V. RECOMMENDATION OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for comment. According to the Division of Medicaid, this project is expected to increase Medicaid expenditures by approximately \$46,222 annually for inpatient hospital services. Outpatient services are paid as outlined in the Medicaid State Plan; thus, the Division does not oppose the application.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the criteria and standards for construction, renovation, and expansion projects as contained in the *2005 Mississippi State Health Plan*; Chapter 8 of the *Mississippi Certificate of Need Review Manual, Revised 2000*; and all adopted rules, procedures, and plans of the Mississippi Department of Health.

The Division of Health Planning and Resource Development recommends approval of this application submitted by the King's Daughters Medical Center (KDMC).

ATTACHMENT 1

King-s Daughters Medical Center (KDMC)
 Three-Year Projected Operating Statement

	Year 1	Year 2	Year 3
Key Statistics:			
Average Daily Census	42.7	42.7	42.7
Inpatient Days	15,586	15,586	15,586
Outpatient Days			
Procedures			
Average Length of Stay			
Occupancy Rate	35.00	35.00	35.00
Charge per day	\$ 6,222	\$ 6,471	\$ 6,730
Cost per day	\$ 2,848	\$ 2,899	\$ 2,995
Profit Margin per day	\$ 107	\$ 115	\$ 118
Patient Revenue			
Inpatient Revenue			
Outpatient Revenue			
Charity Care Charges			
Total Patient Revenue	\$ 96,979,812	\$ 100,859,004	\$ 104,893,364
Deductions from Revenue			
Contractual Adjustments	(51,938,912)	(54,872,780)	(57,380,622)
Total Revenue Deductions	<u>\$ (51,938,912)</u>	<u>\$ (54,872,780)</u>	<u>\$ (57,380,622)</u>
Other Operating Revenue	1,006,192	988,894	1,009,559
Net Revenue	<u>\$ 46,047,092</u>	<u>\$ 46,975,118</u>	<u>\$ 48,522,301</u>
Operating Expenses			
Salaries & Benefits	18,375,522	18,450,368	18,717,687
Professional Fees	1,872,388	1,915,231	1,948,504
Purchased Services	-	-	-
Supplies	6,446,593	6,576,517	6,793,122
Other	7,531,352	7,599,187	8,044,004
Bad Debt	6,705,247	7,138,878	7,600,652
Depreciation	2,632,024	2,716,233	2,802,969
Interest	818,455	793,455	768,455
Total Operating Expenses	<u>\$ 44,381,582</u>	<u>\$ 45,189,869</u>	<u>\$ 46,675,393</u>
Income (Loss) from Operations	\$ 1,665,510	\$ 1,785,249	\$ 1,846,908
Non-Operating Gain (Loss)	\$ 90,000	\$ 90,000	\$ 90,000
Net Income (Loss)	<u>\$ 1,575,510</u>	<u>\$ 1,695,249</u>	<u>\$ 1,756,908</u>