

**MISSISSIPPI STATE DEPARTMENT OF HEALTH  
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT  
NOVEMBER 2007**

**CON REVIEW: HG-CC-0907-020  
MAGNOLIA REGIONAL HEALTH CENTER  
CONSTRUCTION OF A FREESTANDING CANCER CENTER BUILDING  
CAPITAL EXPENDITURE: \$10,405,162  
LOCATION: CORINTH, ALCORN COUNTY, MISSISSIPPI**

**STAFF ANALYSIS**

**I. PROJECT SUMMARY**

**A. Applicant Information**

Magnolia Regional Health Center (Magnolia) is a public acute care facility, owned jointly by the City of Corinth and Alcorn County, Mississippi. The facility is governed by a five-member Board of Trustees. Two members are appointed by the Alcorn County Board of Supervisors; two are appointed by the City of Corinth Board of Aldermen; and one is appointed jointly by both groups. The 164-bed JCAHO-accredited facility is composed of 145 acute care beds and 19 psychiatric beds.

The occupancy rates, average lengths of stay (ALOS), and the Medicaid utilization rates for Magnolia Regional Health Center are as follows for the years 2004 through 2006:

**Magnolia Regional Health Center  
Utilization Data**

<b>Fiscal Year</b>	<b>Occupancy Rate (%)</b>	<b>ALOS (Days)</b>	<b>Medicaid Utilization Rate (%)</b>
2004	48.53	3.97	18.04
2005	50.49	4.02	17.09
2006	51.49	4.02	17.74

**Source:** Division of Health Facilities Licensure and Certification, MSDH.

**B. Project Description**

Magnolia Regional Health Center is requesting Certificate of Need (CON) authority to construct a comprehensive freestanding cancer center building. The applicant states that currently, Magnolia provides cancer services in several locations on the hospital campus and throughout the community.

The project entails construction of a 17,487 square foot building comprised of medical oncology, radiation oncology, and support services in an accessible, signature facility in which physicians, hospital and supportive care professionals

collaborate with a focus on patient care and satisfaction. It is proposed that medical oncology will occupy approximately 5,500 square feet to be leased by the West Clinic, while radiation oncology services will occupy approximately 5,300 square feet to be leased by Magnolia Regional Cancer Center, LLC. Magnolia Regional Cancer Center, LLC is owned by certain physicians and the hospital. Patient support, reception, administration, and other common areas will occupy the remaining square feet of the proposed facility.

The project also includes upgrade of the radiation therapy equipment at the facility since the current equipment is well over 10 years old, according to the applicant. The current Siemens MD-2 Linear Accelerator with a Philips Pinnacle 3 Treatment Planning System will be replaced with a Varian 21-iX Linear Accelerator. The applicant proposes to trade-in the current equipment; however, it anticipates that the current equipment has little or no value in this regard.

The new equipment will allow Magnolia Regional Health Center to offer state-of-the-art intensity modulated radiation therapy (IMRT) and multidisciplinary, integrated care that is not only more convenient for the patient, but can lead to higher quality care due to the interaction and collaboration of physicians who work in the same facility. In addition, the applicant states that patients will have access to supportive care services such as nutritional counseling, financial counseling, and support groups, which have previously been scattered in locations throughout the hospital and the community.

The applicant submits that the final objectives of the proposed project are for Magnolia Regional Health Center to offer a full service comprehensive cancer center program in a single location on the hospital campus. The project does not require any additional personnel.

The MSDH Division of Health Facilities Licensure and Certification has approved the site for the proposed project.

The applicant expects to obligate the capital expenditure by December 31, 2007, and anticipates that the project will be complete by September 30, 2008.

## **II. TYPE OF REVIEW REQUIRED**

The Mississippi State Department of Health reviews applications for construction and renovation involving a capital expenditure in excess of \$2,000,000 under the applicable statutory requirements of Sections 41-7-173, 41-7-191 (1) (j), and 41-7-193, Mississippi Code of 1972, as amended, and duly adopted rules, procedures, plans, criteria, and standards of the Mississippi State Department of Health.

In accordance with Section 41-7-197(2) of the Mississippi Code 1972, Annotated, as

amended, any affected person may request a public hearing on this project within 20 days of publication of the staff analysis. The opportunity to request a hearing expires on December 5, 2007.

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

#### A. State Health Plan (SHP)

The *FY 2007 State Health Plan* contains criteria and standards which an applicant is required to meet prior to undertaking major construction, renovation, expansion, capital improvements, replacement of health care facilities, and addition of hospital beds (Chapter 11, Sec. 106.02). The project is in substantial compliance with applicable criteria.

#### **SHP Criterion 1 – Need**

**Projects which do not involve the addition of any acute care beds:** The applicant shall document the need for the proposed project. Documentation may consist of, but is not limited to, citing of licensure or regulatory code deficiencies, institutional long-term plans (duly adopted by the governing board), recommendations made by consultant firms, and deficiencies cited by accreditation agencies (JCAHO, CAP, etc.).

Magnolia Regional Health Center submits that currently it provides cancer services in several locations on the hospital campus and throughout the community. Radiation therapy services are provided on the hospital campus in a dedicated radiation therapy center; medical oncology services are provided in a separate clinic in hospital medical office space leased by physicians; and supportive care services are offered in the hospital and throughout the community. According to the applicant, disjointed and fragmented cancer care, such as that offered by Magnolia, has recently been targeted by the National Cancer Institute (NCI) as evidenced by the NCI's Community-based Cancer Centers Program (NCCCP) initiative. According to this initiative, the future of cancer care is community based and highly focused on multi-disciplinary care. The challenge remains the fragmented nature of cancer care due to the growing number of services provided in physician offices and freestanding centers. The applicant further states that according to the NCI, the open environment of care has not enabled the provision of the coordinated multi-disciplinary approach to care that has been a hallmark of the care provided at the leading cancer centers in the United States. In response to the dynamic nature of cancer care, Magnolia proposes to improve its cancer center services and operations by the construction of a comprehensive, multidisciplinary cancer center.

The applicant states that the impetus for the construction of a new cancer center

facility is the desire to offer patients the highest-quality, integrated care and the need for updated radiation therapy equipment in an updated radiation therapy facility. The applicant proposes to replace its 10-year old radiation therapy equipment with state-of-the-art intensity modulated radiation therapy (IMRT) and multidisciplinary, integrated care. The applicant states that once the proposed construction is complete, the hospital will be able to offer the latest advances and information in prevention, screenings and education, and quality care comparable to that offered by top cancer centers in America with close to home convenience.

### **SHP Criterion 2 – Bed Service Transfer/Reallocation/Relocation**

This project does not propose the transfer, reallocation, or relocation of beds or services.

### **SHP Criterion 3 – Uncompensated Care**

Magnolia submits that it provides and will continue to provide a reasonable amount of charity/indigent care.

### **SHP Criterion 4 –Cost of Project**

The applicant submits that the cost of the project is reasonable in comparison with the cost of similar projects previously approved by the Mississippi State Department of Health. The Department has not reviewed any projects for the construction of a freestanding cancer center building within the past 12 months. Construction of the cancer center building is expected to cost \$551 per square foot. Excluding the cost of fixed equipment, the building is expected to cost \$386.13 per square foot.

The applicant states that the equipment costs as proposed will not exceed by more than 15% the median costs for similar projects approved by the Mississippi State Department of Health. The project includes a CT scanner at a cost of \$420,000 and a Varian linear accelerator at a cost of \$2,445,517.

### **SHP Criterion 5 – Floor Areas and Space Requirements**

Magnolia Regional Health Center submits that the square footage of 17,487 is appropriate for the Cancer Center construction. The project comprises medical oncology (5,500 sq. ft.); radiation oncology (5,300 sq. ft.); and patient support, reception, administration, and other common areas (6,687 sq. ft.).

No restraints on the proposed project are expected due to architectural design.

No special considerations due to local conditions are requested by the applicant.

### **SHP Criterion 6 – Construction vs Replacement**

The applicant states that the cost of the proposed construction project will not exceed 85% of the cost of a replacement facility.

### **SHP Criterion 7 – Service Specific Criteria**

The application does not propose any new services. Magnolia Regional Health Center is a current provider of radiation therapy services.

## **B. General Review (GR) Criteria**

Chapter 8 of the *Mississippi Certificate of Need Review Manual, Revised November 12, 2006*, 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 consistent with the criteria and standards contained in the FY 2007 *State Health Plan* for projects that do not involve additional acute care beds.

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

The applicant states that the proposed project is the result of planning and identification of long range goals with the Board of Trustees and appropriate consultants for cancer center services at the hospital. The new construction included in this project will allow Magnolia to enhance the continuity of care and services provided to patients treated at the hospital for cancer services. The applicant further states that locating comprehensive cancer center services in one location will provide enhanced access to services and efficiency in providing them to patients of the Magnolia Regional Cancer Center.

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

The applicant states that the only alternative to the proposed project is to continue offering cancer center services as they are presently offered at the hospital. According to the applicant, currently the space is not large enough to accommodate all services of Magnolia Regional Cancer Center in the same area and medical oncology is not offered on site with other related cancer center services. This project will combine all cancer services in one location for a comprehensive approach to care and treatment of cancer patients at Magnolia Regional Cancer Center.

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

Based on the applicant's three-year projections, this project will realize net operating income of \$705,366 the first, \$879,290 the second, and \$1,087,313 the third year of operation.

The application contains a letter from the chief financial officer attesting to the viability of this project.

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

The applicant indicates that it serves all residents in the service area, including low income persons, racial and ethnic minorities, women, handicapped persons and other underserved groups, and the elderly.

The need for this project is addressed in the State Health Plan Section of this Staff Analysis.

The proposed project should have no adverse effect on existing facilities in the area because no additional beds or services will be added.

The application contains six letters of support for the project.

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

According to the applicant, all residents of Magnolia Regional Health Center's service area have access to the hospital's facilities and resources.

The applicant submits that Magnolia has no obligations under any federal regulations requiring uncompensated care, community service, or access by minority/handicapped persons.

The applicant reports that in 2005, 2.6 percent of its gross patient charges resulted in uncompensated care. The applicant further projects that 3.0 percent of its services will be provided for charity care patients.

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

Magnolia Regional Health Center affirmed that it will record and maintain the information required by this criterion and make it available to the Mississippi State Department of Health within 15 business days of request.

### **GR Criterion 8 - Relationship to Existing Health Care System**

The applicant submits that it does not propose the addition of new institutional health services or licensed beds. This proposal, however, does seek to benefit the patient population requiring cancer services by locating comprehensive cancer care in a single location on the hospital campus. The applicant believes that this improvement in the delivery of cancer services at Magnolia Regional Health Center will significantly increase accessibility by patients of the service area.

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

Staff does not anticipate that this project will have an adverse impact on any of the existing hospitals in GHSA 1.

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

The applicant does not propose an increase in staffing as a result of this project. However, the applicant has documented in the application that it has the management and financial resources necessary to implement this project.

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

The applicant affirms that all necessary support and ancillary services for the proposed project are available. Any increase in the use of ancillary or support services as a result of this project will be accommodated through existing facilities and resources.

### **GR Criterion 14 - Construction Projects**

The application contains a schematic drawing and a cost estimate prepared by Robins and Morton Group.

The total project will cost \$551 per square foot for new construction. Excluding fixed equipment, the cost per square foot will be \$386.13. The *Means Building Construction Cost Data, 2007 Edition*, indicates that new construction costs for hospital projects range from \$164 (where ¼ of project cost less) to \$300 (where ¾ of projects cost less) per square foot. The Means Building Construction Cost Data, however, does not compare costs for comprehensive cancer centers.

The applicant submits that the designation of “Above High” with respect to the cost comparison calculation for this project relates specifically to the major fixed equipment involved in offering cancer center services. Specifically, the Varian Linear Accelerator estimated at a cost of \$2,445,517 and the Diamond Select MX 8000 IDT 16-slice CT Scanner estimated at \$420,000, are the components of the Fixed Equipment line item. The fixed equipment costs alone equate to \$2.8 million

of the total capital expenditure, approximately \$163 per square foot without any construction or related costs. Additionally, the applicant states that the vault construction and radiation shielding required for appropriate operation of the linear accelerator approximate \$600,000 of the total fixed equipment costs.

**GR Criterion 16 - Quality of Care**

Magnolia Regional Health 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 accredited by the Joint Commission on Accreditation of Health Care Organizations.

**IV. FINANCIAL FEASIBILITY**

**A. Capital Expenditure Summary**

The total estimated capital expenditure is allocated as follows:

<b>Cost Item</b>	<b>Projected Cost</b>	<b>Percent</b>
Construction Cost -- New	\$ 5,247,785	50.43%
Renovation Costs		
Fixed Equipment	2,865,517	27.54%
Non-Fixed Equipment t	170,589	1.64%
Land Cost		0.00%
Site Preparation	431,600	4.15%
Fees (Architectural, Consultant, etc.)	675,309	6.49%
Contingency Reserve	397,557	3.82%
Other	616,805	5.93%
<b>Total Proposed Capital Expenditure</b>	<b>\$10,405,162</b>	<b>100.00%</b>

The above capital expenditure is proposed for the construction of a 17,487 square feet comprehensive cancer center at Magnolia Regional Health Center. The project will cost approximately \$551 per square foot (See Attachment 2).

**B. Method of Financing**

The project will be financed with cash reserves. The financial statements contained in the application indicate that sufficient funds are available for the project.

**C. Effect on Operating Cost**

The Three-Year Projected Operating Statement is presented at Attachment 1 of this

Staff Analysis.

**D. Cost to Medicaid/Medicare**

Based on revenue source projections presented in the application, the effect of the project on third party payers is as follows:

<b>Payer Mix</b>	<b>Utilization Percentage</b>	<b>First Year Expenses</b>
Medicaid	6.1%	\$ 406,350
Medicare	67.5%	4,470,132
Other	26.4%	1,749,523
<b>Total</b>	<b>100.0%</b>	<b>\$6,626,005</b>

**V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES**

The Division of Medicaid was provided a copy of this application for review and comment. However, no written comments had been received from Medicaid as of this writing.

**VI. CONCLUSION AND RECOMMENDATION**

This project is in substantial compliance with the criteria and standards for construction, renovation, expansion, capital improvements, replacement, and the addition of hospital beds as contained in the *FY 2007 State Health Plan*; the *Mississippi Certificate of Need Review Manual, Revised November 12, 2006*; 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 Magnolia Regional Health Center for the construction of a freestanding cancer center building.

**Attachment 1**

Magnolia Regional Health Center  
Three-Year Operating Statement

	Year 1	Year 2	Year 3
<b>Revenue</b>			
Patient Revenue:			
Inpatient	\$	\$	\$
Outpatient	<u>6,626,005</u>	<u>7,459,271</u>	<u>8,348,701</u>
<b>Gross Patient Care Revenue</b>	<b><u>\$ 6,626,005</u></b>	<b><u>\$ 7,459,271</u></b>	<b><u>\$ 8,348,701</u></b>
Deductions from Revenue	<u>(3,983,061)</u>	<u>(4,558,508)</u>	<u>(5,185,544)</u>
<b>Net Patient Care Revenue</b>	<b><u>\$ 2,642,944</u></b>	<b><u>\$ 2,900,763</u></b>	<b><u>\$ 3,163,157</u></b>
<b>Total Operating Revenue</b>	<b><u>\$ 2,642,944</u></b>	<b><u>\$ 2,900,763</u></b>	<b><u>\$ 3,163,157</u></b>
<b>Operating Expenses</b>			
Salaries	\$ 373,519	\$ 388,460	\$ 403,998
Benefits	137,941	143,458	149,197
Supplies	29,100	32,760	36,666
Services			
Lease	885,071	885,071	885,071
Depreciation			
Interest			
Other	<u>511,947</u>	<u>571,724</u>	<u>600,912</u>
<b>Total Operating Expenses</b>	<b><u>\$ 1,937,578</u></b>	<b><u>\$ 2,021,473</u></b>	<b><u>\$ 1,075,844</u></b>
<b>Net Operating Income (Loss)</b>	<b><u>\$ 705,366</u></b>	<b><u>\$ 879,290</u></b>	<b><u>\$ 2,087,313</u></b>
<b>Assumptions</b>			
Inpatient Days			
Outpatient Days	5,626	6,090	6,554
Procedures	11,834	12,810	13,786
Charge per outpatient day	\$1,178	\$1,225	\$1,274
Charge per inpatient day			
Charge per procedure	\$ 560	\$582	\$606
Cost per inpatient day			
Cost per outpatient day	\$344	\$332	\$317
Cost per procedure	\$ 164	\$ 158	\$151

**Attachment 2**

**Computation of Construction and Renovation Cost**

<b>Cost Component</b>	<b>Total</b>	<b>New Construction</b>	<b>Without Equipment</b>
New Construction Cost	\$5,247,785	\$5,247,785	\$5,247,785
Renovation Cost			
Total Fixed Equipment Cost	\$2,865,517	\$2,885,517	
Total Non-Fixed Equipment Cost	\$170,589	\$0	
Land Cost	\$0	\$0	
Site Preparation Cost	\$431,600	\$431,600	\$431,600
Fees (Architectural, Consultant, etc.)	\$675,309	\$675,309	\$675,309
Contingency Reserve	\$397,557	\$397,557	\$397,557
Other	\$616,805		
Capitalized Interest		\$0	
<b>Total Proposed Capital Expenditure</b>	<b>\$10,405,162</b>	<b>\$9,637,768</b>	<b>\$6,752,251</b>

Square Footage	17,487	17,487	17,487
Allocation Percent		100.00%	100.00%

<b>Costs Less Land, Non-Fixed Eqt. &amp; Other</b>	<b>\$9,637,768</b>	<b>\$9,637,768</b>	<b>\$6,752,251</b>
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<b>Cost Per Square Foot</b>	<b>\$551.14</b>	<b>\$551.14</b>	<b>\$386.13</b>
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