

**Mississippi State Department of Health
Division of Health Planning and Resource Development
December 2008**

CON Review: HG-CB 1008-041

**Rush Medical Foundation d/b/a John C. Stennis Memorial Hospital
Construction of a 25-Bed Acute Care Hospital in Kemper County**

Capital Expenditure: \$13,623,283

Location: DeKalb, Kemper County, Mississippi

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Rush Medical Foundation (Rush), an affiliate of Rush Health Systems, Inc. is a not-for-profit corporation formed on December 23, 1947. Rush Health Systems, Inc. is a comprehensive health system, based in Meridian, Mississippi, and includes Rush Foundation Hospital, The Specialty Hospital of Meridian, Laird Hospital, Rush Medical Group, Medical Foundation, Inc., Rush Home Care, H.C. Watkins Memorial Hospital, and J. G. Alexander Nursing Center. The entity has eight board members.

B. Project Description

Rush Medical Foundation requests certificate of need (CON) authority for the establishment of a 25-bed acute care hospital in DeKalb, Kemper County, Mississippi, to be known as the John C. Stennis Memorial Hospital. This facility was authorized by the 2007 Mississippi Legislature in Senate Bill 2764. The proposed capital expenditure is \$13,623,283, which includes estimated construction costs of \$6,258,209 and approximately 28,900 square feet of space.

The applicant expects that the capital expenditure will be obligated by January 2009, with completion of the project by June 30, 2010. The Division of Health Facilities Licensure and Certification has approved the site for the hospital.

The project will require 88.1 FTE personnel at an estimated cost of \$1,800,000 the first year.

The final objective of the project is to provide acute care hospital services to the residents of Kemper County and the surrounding area. The applicant submits that in adopting Senate Bill 2764, the Mississippi Legislature recognized the need for the proposed project.

II. TYPE OF REVIEW REQUIRED

This project for the establishment and construction of a general acute care hospital is reviewed under the applicable statutory requirements of Sections 41-7-173; 41-7-191 (1) (a), and (17). Section 41-7-191 (17) states that:

(17) The State Department of Health shall issue a certificate of need for the construction of an acute care hospital in Kemper County, not to exceed twenty-five (25) beds, which shall be named the "John C. Stennis Memorial Hospital." In issuing the certificate of need under this subsection, the department shall give priority to a hospital located in Lauderdale County that has two hundred fifteen (215) beds. For purposes of this subsection, the provisions of Section 41-7-193(1) requiring substantial compliance with the projection of need as reported in the current State Health Plan and the provisions of Section 41-7-197 requiring a formal certificate of need hearing process are waived. There shall be no prohibition or restrictions on participation in the Medicaid program (Section 43-13-101 et Seq.) for the person or entity receiving the certificate of need authorized under this subsection or for the beds constructed under the authority of that certificate of need.

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

A. State Health Plan (SHP)

The *FY 2009 State Health Plan* contains policy statements, criteria, and standards which an applicant is required to meet prior to undertaking projects for the establishment/construction of a general acute care hospital; however, as stated above, Senate Bill 2764 of the 2007 Mississippi Legislature session waived the requirement of need in the Plan.

SHP Criterion 2 – Reasonable Amount of Indigent/Charity Care

Rush affirmed that the facility will provide a reasonable amount of indigent/charity care. The applicant projects to provide 6% care to medically indigent patients the first year and 7% the second year of operation.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, Revised February 23, 2008*, addresses general criteria by which all CON applications are reviewed.

GR Criterion 1 – Consistency with the State Health Plan

The 2007 Mississippi Legislature authorized the establishment of a 25-bed acute

care hospital in Kemper County and stated that it shall be named the "John C. Stennis Memorial Hospital." The bill further states that the department shall give priority to a hospital located in Lauderdale County that has 215 beds. The bill waived the need requirement in the Plan and the requirement for a former hearing process.

GR Criterion 2 - Long Range Plan

The applicant states that the long-range plan of Rush Health Systems, Inc. includes the provision of needed health services to residents of East Central Mississippi and surrounding areas. At the present time, Kemper County does not have an acute care hospital. Consequently, this project has been developed and proposed by the applicant to serve an identified community need.

GR Criterion 3 – Availability of Alternatives

The applicant submits that the only alternative to the establishment of an acute care hospital in Kemper County is to continue to require Kemper County residents to access hospitals in other counties. The applicant did not deem this to be an acceptable alternative, and proposes this project in order to meet the identified needs of the residents of Kemper County and the surrounding communities.

According to the applicant, the proposed project will foster improvements in health care services by providing access to needed acute care hospital services to the residents of Kemper County and the surrounding communities.

GR Criterion 4 - Economic Viability

Based on the three-year projected operating statement contained in the application, the applicant will realize net loss of \$89,292 the first year, with net income of \$79,677 the second year and \$325,201 the third year of operation of the hospital.

Proposed Charges: The applicant states that the charges were based on the applicant's extensive experience in financial accounting for hospital services, and are viewed as reasonable and consistent with charges for similar services in the service area and state. The applicant proposes to charge \$1,269, \$1,308, and \$1,285 per inpatient day for the first, second and third year, respectively.

Projected Levels of Utilization: The applicant projects an occupancy rate of 13% in Year 1, 49% in Year 2, and 56% in Year 3. The projected levels of utilization appear to be reasonably consistent with those of other facilities.

Project's Financial Feasibility Study: The application contained a letter signed by the Chief Financial Officer of Rush Health Systems, Inc., Affiliates and Subsidiaries which states that the assumptions utilized in the application appear reasonably attainable.

GR Criterion 5 - Need for the Project

The applicant submits that in passing Senate Bill 2764, the Mississippi Legislature recognized that the residents of Kemper County and the surrounding communities

need access to an acute care hospital. All residents of the area, including low income persons, racial and ethnic minorities, women, handicapped persons, and other underserved groups, and the elderly, will have access to the proposed services, according to the applicant.

GR Criterion 6 - Access to the Facility or Service

Medically Underserved Population: The applicant affirmed that all residents of the health planning 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 existing facilities and will have access to the proposed services and facility. The applicant proposes to provide 6% of gross revenue the first year, or \$250,000, and 7% the second year, \$290,000, to care for medically indigent patients. The same amount of care is proposed to be provided for charity patients.

Performance in Meeting Federal Obligations: The applicant will be a new facility and therefore has no federal obligations.

GR Criterion 7 - Information Requirement

The applicant 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

Currently, the residents of Kemper County must travel to other counties to access acute care hospital services.

The applicant proposes that this hospital will become part of Rush Health Systems, Inc. a comprehensive health care system which provides services throughout East Central Mississippi and other areas.

The facility will have transfer agreements with Rush Foundation Hospital and other facilities in the Rush Health Systems network.

GR Criterion 9 - Availability of Resources

The applicant submits that Rush Health Systems, Inc. has extensive experience in the recruitment and retention of medical personnel, and has the resources to staff the proposed facility.

In addition, the health care facilities affiliated with Rush Health Systems, Inc. have consistently demonstrated a satisfactory staffing history, as evidenced by their licensure, certification and/or accreditation status.

GR Criterion 10 – Relationship to Ancillary or Support Services

Rush Health Systems, Inc. states that its affiliated facilities will ensure that all necessary support and ancillary services are available for the proposed project.

GR Criterion 14 - Construction Projects

The application contains a cost estimate prepared by Pryor & Morrow Architects, P.A.

The total project will cost \$328.14 per square foot for new construction of the hospital. (see Attachment 2). The *Means Building Construction Cost Data, 2008 Edition*, lists new construction costs for hospitals ranging from \$172 (where 25% of projects cost less) to \$310 (where 25% of projects cost more) per square foot. This project exceeds the high range for construction listed in this publication.

GR Criterion 16 - Quality of Care

The applicant submits that Rush Foundation Hospital has consistently demonstrated high quality of care, is accredited by the Joint Commission of Health Care Organizations, and is certified to participate in the Medicare and Medicaid programs.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

The total estimated capital expenditure is allocated as follows:

Cost Item	Projected Cost	Percent
Construction Cost – New	\$6,258,209	45.94%
Fixed Equipment	1,010,000	7.41%
Non-Fixed Equipment	3,800,000	27.89%
Land Cost	205,000	1.50%
Site Preparation	402,000	2.95%
Fees (Architectural, Consultant, etc.)	450,574	3.31%
Contingency Reserve (Building)	1,392,000	10.22%
Legal and Accounting Fees	80,000	.59%
Other	25,500	.19%
Total Proposed Capital Expenditure	13,623,283	100.00%

The above capital expenditure is for the construction and furnishing of a 25-bed acute care hospital. Other cost items include: Option to purchase site (\$1,000) and additional project costs (\$24,500).

D. Method of Financing

Rush Medical Foundation proposes to fund the project with cash reserves.

C. Effect on Operating Cost

The Three-Year Projected Operating Statement is presented in 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:

Payer Mix	Utilization Percentage	First Year Revenue
Medicaid	31%	\$ 1,555,555
Medicare	46%	2,308,243
Commercial	11%	551,971
Self Pay	12%	602,151
Total	100.0	\$ 5,017,920

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for review and comment. Based on its analysis, the Division of Medicaid estimates the annual cost to Medicaid to be \$221,535 in inpatient hospital services. This figure does not, however, include possible reductions in cost at other facilities due to beneficiaries utilizing the newly constructed hospital. Any portion which may relate to outpatient services will be paid as outlined in the Medicaid State Plan. The Division of Medicaid opposes the construction of this facility.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the statutory requirements of Section 41-7-191 (17). The project was also found to be in compliance with applicable general considerations contained in *the Mississippi Certificate of Need Review Manual, Revised February 23, 2008*, and duly adopted rules and procedures of the Mississippi State Department of Health.

Therefore, the Division of Health Planning and Resource Development recommends approval of this application submitted by Rush Medical Foundation d/b/a John C. Stennis Memorial Hospital establishment/construction of the "John C. Stennis Memorial Hospital", a 25-bed hospital, pursuant to Mississippi Code Section 41-7-191(17).

Attachment 1

Rush Medical Foundation d/b/a John C. Stennis Memorial Hospital
 Three-Year Projected Operating Statement

	Year 1	Year 2	Year 3
Revenue			
Inpatient Revenue	\$ 1,505,102	\$ 5,873,248	\$ 6,621,589
Outpatient Revenue	3,512,818	7,150,636	8,060,830
Total Patient Revenue	\$ 5,017,920	\$ 13,023,884	\$ 14,682,419
Deductions from Revenue	(1,464,989)	(3,930,476)	(4,417,026)
Net Patient Revenue	<u>\$ 3,552,931</u>	<u>\$ 9,093,408</u>	<u>\$ 10,265,393</u>
Other Operating Revenue	\$ 50,000	125,000	140,838
Total Operating Revenue	\$ 3,602,931	\$ 9,218,408	\$ 10,406,231
Operating Expenses			
Salaries	\$ 1,600,000	\$ 4,000,000	\$ 4,400,000
Benefits	288,000	720,000	792,000
Supplies	200,300	875,000	1,004,445
Services	852,580	1,500,000	1,650,000
Lease	0	0	0
Depreciation	701,343	\$ 701,343	726,343
Interest	0	0	0
Other	\$ 50,000	\$ 1,342,388	\$ 1,508,242
Total Operating Expenses	<u>\$ 3,692,223</u>	<u>\$ 9,138,731</u>	<u>\$ 10,081,030</u>
Net Operating Income (Loss)	\$ (89,292)	\$ 79,677	\$ 325,201
Assumptions			
Inpatient Days	1,186	4,490	5,151
Outpatient Days	14,450	26,500	29,870
Procedures	100	250	300
Cost / Inpatient Day	\$ 3,113	\$ 2,035	\$ 1,957
Cost / Outpatient Day	\$ 256	\$ 345	\$ 337
Cost/Procedure	\$ 36,922	\$ 36,555	\$ 33,603
Charge / Inpatient Day	\$ 1,269	\$ 1,308	\$ 1,285
Charge / Outpatient Day	\$ 243	\$ 270	\$ 270
Charge/Procedure	\$ 50,179	\$ 52,096	\$ 48,941

**Attachment 2
 Rush Medical Foundation
 John C. Stennis Memorial Hospital
 Computation of Construction Cost**

Cost Component	Total	New Construction
New Construction Cost	\$6,258,209	\$6,258,209
Renovation Cost		
Total Fixed Equipment Cost	\$1,010,000	\$1,010,000
Total Non-Fixed Equipment Cost	\$3,800,000	\$0
Capital Improvement	\$0	\$0
Land Cost	\$205,000	\$0
Site Preparation Cost	\$402,000	\$402,000
<i>Fees (Architectural, Consultant, etc.)</i>	\$450,574	\$450,574
<i>Contingency Reserve</i>	\$1,392,000	\$1,392,000
<i>Capitalized Interest</i>		\$0
<i>Other</i>	\$105,500	\$0
Total Proposed Capital Expenditure	\$13,623,283	\$9,512,783

Square Footage	28,990	28,990
<i>Allocation Percent</i>		100.00%

Costs Less Land, Non-Fixed Eqt. & Other		\$9,512,783
--	--	--------------------

Cost Per Square Foot	\$328.14
-----------------------------	-----------------