

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
NOVEMBER 2009**

**CON REVIEW HG-CO-1009-028
DELTA REGIONAL MEDICAL CENTER
COST OVERRUN TO LTCH-NIS-1205-047; CON #R-0730
(ESTABLISHMENT OF 40-BED LONG TERM ACUTE CARE HOSPITAL)
ORIGINAL CAPITAL EXPENDITURE: \$1,076,000
ADDITIONAL CAPITAL EXPENDITURE: \$658,324
TOTAL CAPITAL EXPENDITURE: \$1,734,324
LOCATION: GREENVILLE, WASHINGTON COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Delta Regional Medical Center (DRMC) is a 398-bed general acute care, short-term medical/surgical hospital consisting of two campuses – the Main Campus (221 beds) and the West Campus (177 beds). The facility, located in Greenville, is a non-profit hospital owned by Washington County and governed by a nine-member Board.

The occupancy rates, average lengths of stay (ALOS), and the Medicaid utilization rates for DRMC are as follows for the years 2006 through 2008:

**Delta Regional Medical Center
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2006	47.90	5.20	16.59
2007	54.36	4.67	22.61
2008	43.28	4.80	29.54

Source: Division of Health Facilities Licensure and Certification,
MSDH

B. Project Background

Delta Regional Medical Center was issued CON No. R-0730 on December 21, 2006, to establish a 40-bed long term acute care hospital. The project would be accomplished through the conversion of 40 acute care beds for the purpose of long term acute care (LTAC). The project would entail the renovation of approximately 22,678 square feet of space that would be leased to Allegiance Specialty Hospital of Greenville for the operation of the LTAC hospital.

C. Project Description

Delta Regional Medical Center now requests a cost overrun on CON R-0730 to complete the project. The applicant states that the cost overrun is necessary due to inflation and the increase in equipment costs occurring during the three years the project was on appeal with the Mississippi Supreme Court, in addition to the necessity to purchase furnishings and equipment originally planned to be reallocated from the hospital.

According to the applicant, renovation began on January 17, 2009, and is expected to be complete by December 31, 2009.

II. TYPE OF REVIEW REQUIRED

The original project was reviewed in accordance with Section 41-7-191, subparagraphs (1)(a), (c), and (d)(xiv) of the Mississippi Code of 1972, Annotated, as amended and duly adopted rules, procedures, plans, criteria, and standards of the Mississippi State Department of Health.

The State Health Officer reviews all projects for amendments and cost overrun in accordance with 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 7, 2009.

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

A. State Health Plan

The original application was in substantial compliance with the *FY2006 State Health Plan*, in effect at the time the original application was submitted. This cost overrun project continues to be in substantial compliance with the *State Health Plan*.

B. General Review Criteria

This application was in substantial compliance with general review criteria contained in Chapter 8 of the Certificate of Need Review Manual, 2000 Revision, in effect at the time of original submission, and continues to be in compliance with applicable general review criteria and standards contained in the *Manual*.

In addition, the applicant states that CMS has reviewed DRMC's LTACH certificate of need in light of the current federal moratorium on LTACHs. CMS determined that DRMC's LTACH qualified for the exception to the LTACH moratorium and that DRMC could appropriately proceed with the project.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

Cost Item	Approved	Revised Capital Expenditure	Increase or (Decrease)	Revised % Total
Construction Cost - New	\$ 0	\$ 0	\$ 0	0.00%
Renovation	800,000	800,000	0	46.13%
Capital Improvements			0	0.00%
Total Fixed Equip Cost			0	
Total Non-Fixed Equip Cost	100,000	285,658	185,658	16.47%
Land Cost				
Site Prep Cost				
Other - Site Expense				
Fees - architectural, engineering, etc.	66,000	45,597	-20,403	2.63%
Fees - legal and accounting	30,000	323,069	293,069	18.63%
Contingency Reserve	80,000	280,000	200,000	16.14%
Capitalized Interest		0	0	%
Other Cost	-	-		-
Total Proposed Expenditures	\$ 1,076,000	\$ 1,734,324	\$ 658,324	100%

The project involves 22,078 square feet of renovation at approximately \$49.63 per square foot. The Means Construction Cost Data does not compare renovation cost of projects.

According to the applicant, \$924,199 has been expended to date and the project is approximately 80% complete.

B. Method of Financing

The applicant states that the anticipated owner/operator of the LTACH, Allegiance Specialty Hospital of Greenville, will finance the project out of its operating revenues.

C. Effect on Operating Cost

The three-year projected operating statement for the LTACH is attached as Attachment 1.

D. Cost to Medicare/Medicaid

According to the applicant, a significant portion of the LTACH patients will be Medicare. Therefore, the cost to the Medicaid program will be minimal.

V. RECOMMENDATION OF OTHER AFFECTED AGENCIES

The Division of Medicaid estimates that the project will increase annual cost to Medicaid by \$16,349 in inpatient hospital services. The Division of Medicaid opposes this project.

VI. CONCLUSIONS AND RECOMMENDATION

This project continues to be in substantial compliance with criteria and standards for establishment of a long term acute care hospital contained in the FY 2006 *State Health Plan; Certificate of Need Review Manual; Revised 2000*; and all adopted rules, procedures, and plans of the Mississippi State Department of Health in effect at the time of approval. The project is a change in scope from the original project, but does not change the overall objectives of the project.

The Division of Health Planning and Resource Development recommends approval of the application submitted by Delta Regional Medical Center for a cost overrun to CON #R-0730 (establishment of a 40-bed long term acute care hospital at the facility).

**Attachment 1
Delta Regional Medical Center
Long Term Acute Care Hospital
Three-Year Projected Operating Statement**

	Year 1	Year 2	Year 3
Patient Revenue			
Medicare	\$ 923,366	\$ 12,109,416	\$ 12,639,756
Commercial	126,360	1,442,610	1,505,790
Total Patient Revenue	\$ 1,049,726	\$ 13,552,026	\$ 14,145,546
Deductions from Revenue			
Contractual Adjustments			
Total Revenue Deductions	\$ 28,658	\$ 369,970	\$ 386,173
Other Operating Revenue			
Net Revenue	<u>\$ 1,021,068</u>	<u>\$ 13,182,056</u>	<u>\$ 13,759,373</u>
Operating Expenses			
Salaries & Wages	\$ 1,344,121	\$ 4,338,524	\$ 4,579,340
Benefits			
Variable Costs	670,600	3,758,595	3,923,205
Fixed Costs	464,300	1,042,800	1,042,800
Interest	5,709	62,371	50,213
Depreciation	35,232	52,848	52,848
Other (Capital Costs)	332,000	498,000	498,000
Total Operating Expenses	<u>\$ 2,851,962</u>	<u>\$ 9,753,138</u>	<u>\$ 10,146,406</u>
Income (Loss) from Operations	\$ (1,830,894)	\$ 3,428,918	\$ 3,612,967
Patient Days	9,537	11,097	11,583
Occupancy Rate	67%	76%	81%
Charge per Patient Day	\$ 110	\$ 1,221	\$ 1,221
Cost per Patient Day	\$ 299	\$ 879	\$ 876