

**DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
NOVEMBER 2009**

**CON REVIEW: HG-CB 0909-023
METHODIST HEALTHCARE-OLIVE BRANCH HOSPITAL
CONSTRUCTION/ESTABLISHMENT OF A 100-BED ACUTE CARE HOSPITAL,
MRI, THERAPEUTIC CARDIAC CATHETERIZATION AND OPEN-HEART
SURGERY EQUIPMENT AND SERVICES
CAPITAL EXPENDITURE: \$137,080,000
LOCATION: OLIVE BRANCH, DESOTO COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Methodist Healthcare-Olive Branch Hospital (Methodist) is a wholly owned subsidiary of Methodist Le Bonheur Healthcare of Memphis, Tennessee, a not-for-profit corporation consisting of a 33-member Board. Methodist Le Bonheur Healthcare also holds ownership and operating interests in multiple healthcare facilities of several types in West Tennessee and North Mississippi.

B. Project Description

Methodist Healthcare-Olive Branch requests Certificate of Need (CON) authority for the establishment of a new 100-bed acute care hospital in Olive Branch, DeSoto County, Mississippi.

Methodist Olive Branch will be a general acute care facility in a four-story patient tower on a 20 acre campus in the southeast quadrant of U.S. Highway 78 and Bethel Road (Hacks Cross Road). The site will contain the hospital building, a central energy plant, and ample convenient parking for patients, families, and staff.

The project involves construction of a four-story patient tower with building space for ancillary and support services, a central energy plant, and parking lots in the front and back of the building. The hospital structure will consist of three distinct sections: 1) administrative and public space; 2) health services and ancillary space; and 3) the patient tower. At the conclusion of the project, the hospital will contain 100 acute care beds in the patient tower, including 10 obstetrical beds (LDRP) on the first floor and three 30-bed units, for a total of 90 medical/surgical universal beds on the second, third, and fourth floors. In addition, the facility will contain six operating rooms including one open-heart room, adult and pediatric emergency services, two cardiac catheterization labs (cath labs), a 1.5T magnetic resonance imaging (MRI) unit, a full range of ancillary departments, and support services. The applicant also proposes to participate in the statewide trauma system as a Level IV facility.

The applicant states that the buildings will be designed to be LEED certified by the U.S. Green Building Council as green buildings. According to the applicant, this concept will reduce the hospital's operating costs by using less energy and water as well as reduce the impacts on the environment. The applicant states that Methodist Oliver Branch will be the first green hospital in the state of Mississippi.

Methodist Le Bonheur, the parent company, has a purchase agreement with an option to purchase 40 acres of land for the facility. The 276,000 square foot facility will be located on a 20-acre site located on the southeast corner of US Highway 78 and Bethel Road (Hacks Cross Road) and will consist of the hospital building, the central energy plant, and ample convenient parking for patients, families, and staff.

Methodist Olive Branch asserts that its primary service area is DeSoto County, particularly the fast growing city of Olive Branch. The secondary service area consists of Marshall, Tate, and Tunica counties and the tertiary counties are Panola, Lafayette, and Benton.

The applicant projects a total of 480.5 FTE personnel at a cost of approximately \$35,991,175 the first year after completion of this project.

The Mississippi State Department of Health Division of Health Facilities Licensure and Certification found the site acceptable and approval of the site was granted.

The applicant expects to obligate the capital expenditure by January 1, 2010 and anticipates that the project will be complete by January 2013.

II. TYPE OF REVIEW REQUIRED

This project for the establishment and construction of a new general acute care hospital, establishment of cardiac catheterization and open-heart surgery, magnetic resonance imaging (MRI) , and obstetrical services involving a capital expenditure in excess of \$2,000,000, is reviewed under the applicable statutory requirements of Sections 41-7-173; 41-7-191 (1) (a), (d)(i), (ii), and (xii), and (j); 41-7-193; and 41-7-195, 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 7, 2009.

In addition, all projects are reviewed under the *Plan* in effect at the time the application was received. This application was received September 1, 2009, and the *2010 State Health Plan* had an effective date of September 1, 2009.

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

A. State Health Plan (SHP)

The *FY 2010 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, offering of obstetrical services when the capital expenditure exceeds \$2,000,000, cardiac catheterization and open-heart services, and MRI services. This project is in compliance with the FY 2010 State Health Plan, as discussed below:

Certificate of Need Criteria and Standards for the Establishment of a General Acute Care Hospital

SHP Criterion 1 – Need

The applicant shall document a need for a general acute care hospital using the appropriate need methodology as presented in the *Plan*. In addition, the applicant must meet the other conditions set forth in the need methodology.

The *Plan* sets out three methodologies to project the need for general acute care hospitals:

- a. **Counties Without a Hospital** - The MSDH shall determine hospital need by multiplying the state's average annual occupied beds (1.74 in FY 2007) per 1,000 population by the estimated 2010 county population to determine the number of beds the population could utilize. A hospital with a maximum of 100 beds may be considered for approval if: (a) the number of beds needed is 100 or more; (b) there is strong community support for a hospital; and (c) a hospital can be determined to be economically feasible.
- b. **Counties With Existing Hospitals** - The MSDH shall use the following formula to determine the need for an additional hospital in a county with an existing hospital:

$$ADC + K(\sqrt{ADC})$$

Where: **ADC = Average Daily Census**

K = Confidence Factor of 2.57

The formula is calculated for each facility within a given General Hospital Service Area (GHSA); then beds available and beds needed under the statistical application of the formula are totaled and subtracted to determine bed need or excess within each GHSA. The MSDH may consider approval of a hospital with a maximum of 100 beds if: (a) the number of beds needed

is 100 or more; (b) there is strong community support for a hospital; and (c) a hospital can be determined to be economically feasible.

- c. **Counties Located in an Underdeveloped General Hospital Service Area and with a Rapidly Growing Population** – Notwithstanding the need formula in b above, any county with a population in excess of 140,000 people; projecting a population growth rate in excess of ten (10) percent over the next ten (10) year period; and its General Hospital Service Area does not presently exceed a factor of three (beds per 1,000 population); may be considered for a new acute care hospital, not to exceed one hundred (100) beds, in that county.

The applicant proposes to construct a 100-bed general acute care hospital in DeSoto County, in General Hospital Service Area 1 (GHSa 1). According to the *2010 State Health Plan*, General Hospital Service Area 1 has a 2010 projected population of 260,626 and DeSoto County alone has a population projection of 148,614.

Methodist submits that the U. S. Census Bureau lists DeSoto County as one of the fastest growing counties in the country for 2008, ranking 32nd in the nation with a population growth rate of 44.4%. The applicant further submits that based on data from the Office of Policy Research and Planning with the Mississippi Institutions of Higher Learning, the DeSoto County population is projected to increase by 47% between 2010 and 2020.

DeSoto County has one of the lowest bed/1,000 population ratios in the State at 2.08. According to the applicant, the ratio will shrink to 1.41 by 2020 with no additional beds in the service area. The applicant believes that the addition of acute care beds and services is essential to meet the healthcare needs of the community. Therefore, this project is reviewed under the methodology for counties located in an underdeveloped general hospital service area and with a rapidly growing population.

Further, any person proposing a new hospital under criterion 1c above must meet the following conditions:

- 1) Provide an amount of indigent care in excess of the average of the hospitals in the General Hospital Service Area as determined by the State Health Officer.**

Methodist states that it serves all patients regardless of their ability to pay and will continue this mission in the hospital in North Mississippi. The applicant further affirms that it will provide a reasonable amount of indigent/charity care. The applicant asserts that the proposed projections support Methodist's plans to share in the existing care provided to indigent/charity patients with other health/care providers in

the service area. By year three, Methodist projects that 6.5 percent of total charges and 6 percent of total gross patient revenue will be indigent/charity patients.

After survey of the hospitals in GHSA 1, staff finds that the average yearly indigent care is 4.1%. It is noted that the applicant's projections are in excess of the required amount. Staff recommends that the State Health Officer set the requirement of required indigent care at least 4.1% per annum.

2) Provide an amount of Medicaid care in excess of the average of the hospitals in the General Hospital Service Area as determined by the State Health Officer.

According to the applicant, Methodist hospitals in Tennessee currently render services to patients with Mississippi Medicaid. Methodist Olive Branch will provide acute care services closer to home for many Medicaid patients. Projections support Methodist's plans to share in the existing care provided to Medicaid patients in the service area. The project will not increase Medicaid utilization of services, but will shift it closer to the homes of the patients and their families. By year three, Methodist projects that 12.5 percent of total discharges or over 9 percent of total gross patient revenue will be Medicaid patients.

Staff reviewed two sets of data in an attempt to ascertain the percentage of care provided to Medicaid patients. The results are presented below:

Type of Care	Based on Survey	Based on Discharges
Medicaid	20.95%	15.91%*

*Staff calculations were based on Medicaid discharge days divided by total discharge days for hospitals located in GHSA 1, as contained in the Application for Renewal of Hospital License for Calendar Year 2009 and FY 2008 Annual Hospital Report. The reports do not contain discharge data regarding indigent care.

Methodist's projected discharges by payor mix in the first year of operation (2013) are: Medicare – 22.5%; Medicaid – 20.6%; Self Pay 6.0%; and Commercial/Other – 50.9%. The applicant submits that these projected discharges were developed based on the current number of patients that live in Mississippi that are using Methodist LeBonheur hospitals, excluding all Le Bonheur patients and high level tertiary cases such as neurosurgery and transplant that the new hospital would not be equipped to treat. In addition, Methodist states that it assumed that it would attract 3.25% of projected discharges in the 7-county primary, secondary, and tertiary service area of DeSoto, Tunica, Marshall, Tate,

Panola, Benton, and Lafayette counties, based on 2015 projected population in the service area. The applicant states that it then reduced the total potential discharges by 30% in 2013, and 15% in 2014 based on the belief that the movement of patients to the new facility would occur over a three year period due to the need to attract physicians to the new campus and the normal acceptance time for patients and physicians to move from existing locations of treatment to the new location.

After survey of the hospitals in GHSA 1 and calculation of Medicaid discharge rates contained in Applications for Renewal of Hospital License, staff finds that the average yearly Medicaid care is at least 16%. Staff recommends that the State Health Officer set the requirement of required Medicaid care at 16% per annum.

3) If the proposed hospital will be located in a county adjacent to a county or counties without a hospital, the applicant must establish outpatient services in the adjacent county or counties without a hospital.

The applicant asserts that Methodist acknowledges the economic and health disparities in Tunica County and will comply with the Department's requirement for the provision of outpatient services in any adjacent county with no hospital. The only county adjacent to DeSoto that is without a hospital is Tunica County. The applicant submits that it is in negotiations with Tunica County regarding details of how Methodist might partner with the county in the continued provision of outpatient services through the operation of two existing clinics. The two Tunica Medical Clinics are located in the cities of Tunica and Robinsonville in Tunica County, and are currently owned by the county. The applicant affirms that it will take all necessary actions to comply with the Department's requirement regarding Tunica County, and will establish outpatient services there upon CON approval. The application contains a Resolution from the Methodist Le Bonheur Healthcare Board concerning this criterion.

Tunica County is a part of the service area covered by Methodist's in-home services. Methodist states that it currently provides ambulatory services, home care, and hospice services to the county. Additionally, the applicant states that Methodist operates a clinic in the Hollywood Casino for the employees in Robinsonville, Tunica County. The discussions with Tunica County are in addition to the existing presence of Methodist in the county.

- 4) Fully participate in the Trauma Care System at a level to be determined by the Department for a reasonable number of years to be determined by the State Health Officer. Fully participate means play in the Trauma Care System as provided in the Mississippi Trauma Care System Regulations and the new hospital shall not choose or elect to pay a fee not to participate or participate at a level lower than the level specified in the CON.**

The applicant states that Methodist Olive Branch will fully participate in the Trauma Care System at a level to be determined by the Mississippi State Department of Health. Methodist anticipates the new hospital to be initially designated as a Level IV. Methodist will seek guidance from and follow directions of Emergency Medical Services (EMS) officials at the Department regarding the trauma system.

- 5) The new hospital must also participate as a network provider in the State and School Employees' Health Insurance Plan as defined in Mississippi Code Section 25-15-3 and 25-15-9.**

Methodist Olive Branch affirms it will participate in the Mississippi State Employees Insurance Program.

SHP Criterion 2 – Reasonable Amount of Indigent/Charity Care

Methodist states that it serves all patients regardless of their ability to pay and that Methodist Olive Branch will continue this mission in the hospital in Olive Branch, Mississippi. It further affirmed that it will provide a reasonable amount of indigent/charity care. The applicant asserts that the proposed hospital's commitment to these patients has been reflected in the projections for the proposal. The business plan has accounted for all payer types.

Methodist projects that 5.4% of its gross patient revenue will provide for medically indigent and charity care patients for the first year of operation for the proposed project.

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

SHP Criterion 1 – Need

This project proposes the construction of a new health care facility; therefore, it is reviewed under the criteria and standards for the establishment of a healthcare facility above.

SHP Criterion 2 – Bed Service Transfer/Reallocation/Relocation

Not applicable.

SHP Criterion 3 – Uncompensated Care

See criterion 2 above for the establishment of a new healthcare facility.

SHP Criterion 4 –Cost of Project

- a. **Cost per Square Foot:** The proposed project consists of 276,000 square feet of new construction at an estimated cost of \$329 per square foot. The new construction cost per square foot of this project (new hospital) is higher when compared to new construction costs listed in the *Means Building Construction Cost Data, 2009 Edition*. The *Means Building Construction Cost Data* lists the costs for hospital construction to range from \$185 to \$315 per square foot. No projects have been approved within the past 12 months for new hospitals as proposed in this project. However, the cost per square foot is comparable to the cost for replacement facilities reviewed within the past 12 months.
- b. **Equipment Cost:** The applicant proposes to purchase fixed equipment at a cost of \$10,400,000 and non-fixed equipment at a cost of \$30,200,000.

SHP Criterion 5 - Floor Areas and Space Requirements

The application contains schematic drawings and a site plan of the proposed facility. The facility will consist of 276,000 square feet of space.

SHP Criterion 6 – Renovation Cost

This project is for the construction of a new health care facility; therefore, this criterion is not applicable.

SHP Criterion 7 – Need for Specific Services

Criteria and Standards for the Acquisition or Otherwise Control of MRI Equipment

SHP Criterion 1 – Need

The entity desiring to acquire or otherwise control the MRI equipment must document that the specified equipment shall perform a minimum of 2,700 procedures per year by the end of the second year of operation. This criterion includes both fixed and mobile MRI equipment. The applicant must show the methodology used for the projections.

Methodist asserts that the proposed project includes a hospital-based MRI (fixed) unit.

Methodist used the population-based MRI formula to demonstrate the need for additional MRI services/equipment in GHSA 1. The applicant believes that the population base of 260,626 in GHSA 1 is reasonable to document the minimum procedures to be performed by the proposed MRI unit. The city of Olive Branch alone supports the need for over 1,000 procedures. The applicant's calculation documents a need in GHSA 1 for well over two times the required minimum of 2,700 MRI procedures required of the above criterion. See table 1.

Methodist used the following table 1 to show a need for additional MRI services/unit in GHSA 1:

**Table 1
 GHSA 1
 Population Based MRI Formula
 2010 Population by County**

County/City	2010 Population	Expected MRI Volume (87 pro/1,000)	Current MRI Volume 2008	MRI Need
Olive Branch	42,630	3,709	2,556	1,153
Other DeSoto	105,984	9,221	11,465	<2,244>
Marshall	37,129	3,230	-	3,230
Tate	27,973	2,434	-	2,434
Tunica	10,304	896	-	896
Panola	36,606	3,185	1,111	2,074
Total GHSA 1	260,626	22,674	15,132	7,542

Source: 2010 Mississippi State Health Plan

The applicant asserts that Methodist currently performs over 3,000 MRI procedures for patients that live in Mississippi and use Methodist adult hospitals in Tennessee. Methodist projects that the new hospital in Olive Branch will perform over 3,000 MRI procedures in Year 2, which is well over the minimum of 2,700 required to demonstrate need.

The applicant projects that it will perform 2,511 inpatient and outpatient MRI procedures in Year 1, 3,018 in Year 2, and 3,566 in Year 3.

The applicant asserts that Methodist Olive Branch hospital will provide many acute care services to its patients which will make it imperative that MRI services be available.

The applicant asserts that the average utilization for 2008 MRI units in GHSA 1 is greater than 1,700 per unit. There are currently six (6) providers of MRI services in GHSA 1 utilizing approximately five fixed units and one FTE mobile units, for a total of six MRI units. These providers performed an average of 2,522 MRI procedures during FY 2008. Therefore, there is sufficient utilization to meet this criterion.

SHP Criterion 2 – Assurances

Methodist provided documentation that the equipment is FDA approved, assures that only qualified personnel will be allowed to operate the MRI equipment, and that there are no existing plans for the equipment to be rented, leased, or otherwise used on a contractual basis.

SHP Criterion 3 – Information Recording/Maintenance

The applicant affirmed that all information and data required will be made available to the Mississippi State Department of Health within the expected time frame.

SHP Criterion 4 – Authorized Entity

Methodist Olive Branch submitted documentation that the entity is authorized to do business in the state of Mississippi.

SHP 5 – Authorization of Provider

Methodist Healthcare will be the provider of MRI services and requests authorization by this application.

Certificate of Need Criteria and Standards for the Offering of MRI Services

SHP Criterion 1 – Need

The entity desiring to offer MRI services must document that the equipment shall perform a minimum of 2,700 procedures per year by the end of the second year of operation. Using the current ratio of MRI procedures to total discharges at Methodist, the applicant stated that it will provide 3,018 MRI procedures by the second year of operation. There are currently six (6) providers of MRI services in GHSA 1 utilizing approximately six (6) FTE units. These providers performed an average of 2,522 MRI procedures during FY 2008.

SHP Criterion 2 - Documentation of Diagnostic Imaging Modalities

Methodist affirmed that a full range of diagnostic imaging modalities including computed tomography, ultrasound, angiography, nuclear medicine, and conventional radiology services will be offered.

SHP Criterion 3- Accessibility

Methodist affirmed that the facility and its participating medical personnel will not have policies or procedures which would exclude patients based on race, color, age, sex, ethnicity, or ability to pay.

SHP Criterion 4 - Staffing

The applicant affirmed that the required staff, including the director and full-time MRI technologist-radiographer, will be available to provide the MRI services.

SHP Criterion 5 - Research Staffing

Methodist affirmed that the facility does not plan to use the MRI equipment for experimental procedures.

SHP Criterion 6 - Recording of Data

Methodist affirmed that the facility will record and maintain the information required by this criterion and shall make the data available to the Mississippi State Department of Health regarding the operation of the MRI equipment. Also, the applicant states it will record source of payment for procedures and the total amounts charged during the fiscal year.

SHP Criterion 7 - CON Approval

Methodist proposes to obtain CON approval as a new provider of MRI services in Mississippi.

Certificate of Need Criteria and Standards for the Acquisition or Otherwise Control of Therapeutic Cardiac Catheterization Equipment and/or the Offering of Therapeutic Cardiac Catheterization Services

SHP Criterion 1 – Need

The applicant shall document a minimum population base of 100,000 in the CC/OHSPA where the proposed therapeutic cardiac catheterization equipment/service is to be located. The proposed facility will be located in DeSoto County, CC/OHSPA 1. CC/OHSPA 1 consists of the following counties: DeSoto,

Marshall, Panola, Tate, and Tunica. According to the *FY 2010 State Health Plan*, these six counties have a 2010 projected population of 260,626 and DeSoto County alone has a population projection of 148,614*.

***Source:** Mississippi Population Projections for 2010, 2015, and 2020, Center for Policy Research and Planning, Mississippi Institutions of Higher Learning, August 2005, herein after referred to as “2010 Population Projections”.

SHP Criterion 2 – Minimum Procedures

The applicant proposing to establish therapeutic cardiac catheterization services shall demonstrate that the proposed equipment/service utilization will be a minimum of 450 cardiac catheterizations, both diagnostic and therapeutic, per year by the third year of operation.

The applicant submits that Methodist currently performs more than 700 diagnostic and therapeutic cardiac catheterization procedures for patients that live in Mississippi and use the Methodist adult hospitals in Tennessee. The applicant projects the following utilization for the cardiac services at Methodist Healthcare, Olive Branch Hospital for the first, second, and third years of operation:

Table 2

Year	Projected Cardiac Catheterization Procedures
1st	575
2nd	703
3rd	841

SHP Criterion 3 - Impact on Existing Providers

The applicant shall demonstrate that each existing unit which is (a) in the CC/OHSPA and (b) within 45 miles of the applicant has been utilized for a minimum of 450 procedures (both diagnostic and therapeutic) per year for the two most recent years. The *FY 2010 State Health Plan* lists one facility in CC/OHSPA 1 with a cardiac catheterization laboratory, which is in DeSoto County. Baptist Memorial Hospital-DeSoto (2 Labs) performed 1,752 procedures in 2007, and 4,672 procedures in 2008. This equates to 876 procedures per lab in 2007 and 2,336 procedures in 2008.

SHP Criterion 4 - Staffing Standards

The applicant submits that it can obtain the ability to administer the proposed services, provide sufficiently trained and experienced professional staff, and evaluate the performance of the programs.

SHP Criterion 5 – Staff Residency

The applicant certifies that the medical staff performing the cardiac catheterization procedures will reside within the specified proximity to the facility. However, no documentation was submitted to determine if personnel would be living and working within the specific hospital area or that there would be no traveling team as referenced by SHP Policy Statement No. 10.

SHP Criterion 6 – Recording and Maintenance of Data

The applicant affirms that it will provide the required information upon request.

SHP Criterion 7 – Open-Heart Surgery

This application includes the proposal for open-heart surgery services.

SHP Criterion 8 – Regulatory Approval

The applicant has submitted this application in compliance with this criterion.

Acquisition or Otherwise Control Of Open-Heart Surgery Equipment and/or The Offering of Open-Heart Surgery Services

SHP Criterion 1- Need

The CON criteria and standards for the offering of open-heart surgery services outlined in the *FY 2010 State Health Plan* state that an entity desiring to offer open-heart services must document a minimum population base of 100,000 in the CC/OHSPA where the proposed open-heart surgery equipment/service is to be located. The planning area wherein the facility will be located, CC/OHSPA 1, has a total population of 260,626. DeSoto County, alone where the proposed hospital will be located, has a population projection of 148,614.

SHP Criterion 2 – Minimum Procedures

The *FY 2010 State Health Plan* states that the applicant shall demonstrate that the facility will perform a minimum of 150 open-heart surgeries per year by the third year of operation.

The applicant states that Methodist currently performs 175 open-heart surgeries for patients that live in Mississippi at Methodist adult hospitals in Tennessee. The applicant projects the new hospital will perform 169 open-heart surgeries in year 3 which is more than the minimum of 150 required of this criterion. Methodist expects Methodist Olive Branch to perform 169 open-heart surgeries by the third year of operation. See Table 3 below:

Table 3

Year	Projected Open-Heart Procedures
1st	109
2nd	139
3rd	169

SHP Criterion 3 – Impact on Existing Providers

An applicant proposing to acquire or otherwise control open-heart surgery equipment and/or offer open-heart surgery services shall document that each facility offering open-heart surgery services which is in the CC/OHSPA and within 45 miles of the applicant has performed a minimum of 150 procedures per year for the two most recent years.

As reported in the *FY 2010 State Health Plan*, there is one facility in CC/OHSPA 1 that has CON authority to perform open-heart surgeries: Baptist Memorial Hospital – DeSoto (DeSoto County, Mississippi), where Methodist Olive Branch will be located. This facility performed 193 open-heart surgeries in 2007 and 213 open heart surgeries in 2008. As shown in the *Plan*, Baptist Memorial Hospital – DeSoto (DeSoto County, Mississippi) performed 150 procedures per unit as required by this criterion. Therefore, the applicant is in compliance with this criterion.

SHP Criterion 4 – Staffing Standards

Methodist affirms that it can obtain the ability to administer the proposed services, provide sufficiently trained and experienced professional staff, and evaluate the performance of the programs.

SHP Criterion 5 – Staff Residency

Methodist certifies that the medical staff performing the open-heart surgery procedures will reside within the specified proximity to the facility.

SHP Criterion 6 - Information Requirement

Methodist assures that it will maintain the data required by this criterion and make it available to the Mississippi State Department of Health annually.

SHP Criterion 7 – CON Approval

This application serves as a request for CON authority to comply with this criterion.

Certificate of Need Criteria and Standards for Obstetrical Services

SHP Criterion 1 – Need

Methodist submits that it currently delivers over 650 babies for mothers from Mississippi in their Tennessee facilities. The applicant believes that the volume projections for deliveries assume that the majority of mothers will utilize these new services offered closer to home. Methodist projects over 650 deliveries in Year 1 and over 800 in Year 2, which is more than triple the minimum of 150 and 250 respectively required to demonstrate need of this criterion.

By the end of the third year, Methodist Olive Branch projects there will be 1,016 deliveries, over four times the minimum to justify the need for perinatal services.

Methodist Olive Branch is proposed to be located in Perinatal Planning Area 1, which contains three hospitals offering obstetrical delivery services. These facilities are Grenada Lake Medical Center, which reported 648 deliveries during FY 2007 and 571 deliveries during FY 2008, Baptist Memorial Hospital-DeSoto, which reported 1,998 deliveries during FY 2007 and 2,142 deliveries during FY 2008, and Northwest Mississippi Regional Medical Center, which reported 978 deliveries during FY 2007 and 1,022 deliveries during FY 2008.

SHP Criterion 2 – Perinatal Services

Methodist Healthcare Olive Branch documents that it will provide basic perinatal services at the proposed facility.

SHP Criterion 3 – Nursing Personnel

Methodist Healthcare Olive Branch certified that it will provide a full-time nursing staff under the direct supervision of a qualified professional nurse.

SHP Criterion 4 – Written Policies

The applicant certified that it will have written policies in place and personnel trained prior to the initiation of obstetrical and newborn care. Methodist states that it provides obstetrical and newborn care in three of their Tennessee facilities and the proper policies and training are in effect in all locations.

SHP Criterion 5 – Emergency Cesarean Delivery

Methodist documents that upon initiation of obstetrical services that all personnel required for cesarean delivery will be in the hospital and readily available at all times.

SHP Criterion 6 – Normal Driving Time

The applicant certified that services will be available to 95% of the population within one hour normal driving time in rural areas and within 30 minutes normal driving time in urban areas.

SHP Criterion 7 – Protocols

The applicant affirmed that protocols will be in place to appropriately transfer neonates in both routine and emergency circumstances. According to the applicant, Methodist Healthcare-Germantown Hospital is one of the closest neonatal intensive care units and Methodist – Le Bonheur Children’s Medical Center is the only tertiary pediatric facility in the region. The applicant states that both facilities will have the capabilities and capacities to accept transfers from the Olive Branch facility based on the level of care needed by the infant.

SHP Criterion 8 – Information Requirement

Methodist assures that all information and data required by this criterion will be made available to the Mississippi State Department of Health within the expected time frame.

SHP Criterion 9 – Admission Policies

Methodist confirmed that the facility and its participating staff will not have policies or procedures which would exclude patients based on race, color, age, sex, ethnicity, or ability to pay.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, Revised September 1, 2009*, addresses general criteria by which all CON applications are reviewed.

GR Criterion 1 – Consistency with the State Health Plan

The project is consistent with the *FY 2010 State Health Plan*. Methodist Healthcare Olive Branch seeks to construct an acute care hospital in DeSoto County, consisting of 90 general medical surgical beds, 10 obstetrical beds, MRI, cardiac catheterization and open-heart surgical services.

GR Criterion 2 - Long Range Plan

The applicant states that Methodist Le Bonheur Healthcare's mission is to provide high quality, cost effective healthcare to all sectors of its service area. Methodist Healthcare further states that they have strategically placed and maintained hospital facilities in Shelby and Fayette counties as part of that mission, to provide multiple entry points to acute care for communities of varied social and economic characteristics.

GR Criterion 3 – Availability of Alternatives

Methodist considered two alternatives to the construction of a new 100-bed hospital in Olive Branch. One alternative considered was to do nothing, which the applicant states is not acceptable because thousands of patients who live in Mississippi seek healthcare services from Methodist in their Tennessee facilities. In addition, the applicant asserts that many residents of DeSoto County have commercial insurance coverage through managed care payers, both of which have long term contracts with Methodist Le Bonheur Healthcare. These patients, according to Methodist, have no covered option for acute and emergency care in DeSoto County, and must travel across the state line into Tennessee for services.

Another alternative considered was to offer healthcare services at a lower level. The applicant states that it has a Minor Med/Urgent Care center and two Outpatient Imaging Centers in DeSoto County. Although these are key components of an integrated system, this is not the full range of healthcare services needed for this patient population, according to the applicant

The applicant concluded that the proposal to construct a new 100-bed hospital in Olive Branch, Mississippi, is the best approach to meet the needs of its Mississippi patients.

GR Criterion 4 - Economic Viability

Based on the three-year projected operating statement contained in the application, the applicant will realize net losses of \$12,921,330 the first year and \$2,905,513 the second year, with net income of \$2,901,039 the third year of operation of the Olive Branch facility.

Proposed Charges: The applicant believes that the charges and profitability of the proposed services are comparable to those currently provided at other Methodist Le Bonheur Healthcare hospitals. The applicant's charges appear to be slightly higher than most projections for MRI services. No projects for cardiac cath or open-heart surgery services have been reviewed within the past 12 months to make a comparison. Table 4 below shows the applicant's proposed costs and charges for the various services.

Table 4
Proposed Costs and Charges for Services

Service	Year 1		Year 2		Year 3	
	Cost	Charge	Cost	Charge	Cost	Charge
MRI	\$379	\$2,855	\$417	\$3,026	\$397	\$3,208
Cardiac Cath	\$3,067	\$24,206	\$3,180	\$25,659	\$3,208	\$27,198
Open-Heart Surg.	\$23,171	\$98,165	\$23,465	\$104,055	\$23,939	\$110,298

Methodist states that the proposed costs and charges include inpatient procedures and outpatient procedures; inpatient procedures may be more complex with more scans and use of contrast than outpatient procedures.

Projected Levels of Utilization: The applicant projects an occupancy rate of 47% in Year 1, 60% in Year 2, and 73% in Year 3. However, the average occupancy rate for facilities in GHSA 1 was 50.29% for FY 2008. In addition, the average occupancy rate for acute care beds in Mississippi as a whole was 51.74% for FY 2008.

Project's Financial Feasibility Study: The application contained a letter signed by the executive vice president of finance for Methodist Healthcare attesting to the financial feasibility of the project. However, Methodist Healthcare's audited financial statements for 2006 to 2008 show insufficient cash on hand as of 2008 (\$46.6M) to entirely fund the cost of the project. Additionally, it is noted that the financial statements show a \$67M decrease in cash on hand from \$113.9M in 2007 to \$46.6M in 2008.

GR Criterion 5 - Need for the Project

Access by Population Served: The applicant asserts that Methodist serves all patients who seek care from its facilities and confirms there are no policies or procedures which would exclude patients based on race, color, age, sex ethnicity or ability to pay.

According to the applicant, the new hospital will be open to all in need of healthcare and will extend its services to those unable to travel to Methodist in the past. Methodist will share in the treatment of the underserved with other existing providers in the service area. The applicant believes that the proposed new hospital will significantly improve access to inpatient care and emergency care in the fast growing community of Olive Branch. The facility will reduce drive times and travel expense for healthcare services, will attract a wider range of healthcare and physician specialists to the service area, and will improve the health of patients by bringing advanced technology and quality patient and family centered care into the community.

According to the applicant, the service area for Methodist Olive Branch includes seven counties in North Mississippi, with a total of over 300,000 people, growing by almost 80,000 people (or 26%) by 2020.

Relocation of Services: This project is for the construction of a new healthcare facility in DeSoto County. Therefore, this criterion is not applicable.

Probable Effect on Existing Facilities in the Area: The applicant asserts that there are four (4) hospitals in GHSA 1, which had an average occupancy rate of 50.29 for FY 2008.

In addition, there is one cardiac cath and open-heart surgery unit in GHSA 1 which performed the required level of procedures.

Community Reaction: The application contains numerous letters of support for the project from political officials, physicians, citizens, and businesses.

Letters of opposition for the proposed project were received from Alliance Healthcare System, Holly Springs, Marshall County, and Baptist Memorial Hospital-Desoto, Southaven, DeSoto County.

GR Criterion 6 - Access to the Facility or Service

Medically Underserved Population: Methodist 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. Methodist is committed to providing access and health services to all people in its tri-state area regardless of their ability to pay. The applicant proposes to provide 5.4% of gross revenue the first year, or \$15,012,720, and 5.5% the second year, \$19,589,652, to care for the medically indigent 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

Methodist submits that its primary service area is DeSoto County, including in particular the Olive Branch community. The secondary service area includes communities in Marshall, Tunica, and Tate counties. The tertiary counties are

Panola, Lafayette, and Benton. The new hospital will be open to all in need of healthcare and will extend Methodist services to those unable to travel to its hospital in the past. Methodist asserts that it will share in the treatment of the underserved with other existing providers in the service area.

The applicant states that patients in Olive Branch currently have long commute times to healthcare services. Many of these patients access healthcare facilities in Shelby County, Tennessee, including the four adult and one pediatric hospitals operated by Methodist Le Bonheur Healthcare. Methodist believes that the close affiliation with Methodist – Le Bonheur Children’s Medical Center for the specialized, chronic, or acute pediatric care will benefit the children in the service area.

There are three acute care providers in the applicant's primary and secondary service areas: Baptist Memorial Healthcare-DeSoto, DeSoto County; Alliance Healthcare System, Marshall County; and North Oak Regional Medical Center, Tate County. The applicant states that there are two acute care providers in the tertiary service area: Tri-Lake Medical Center, Panola County and Baptist Memorial Hospital North Mississippi in Lafayette County. Methodist states that it proposes to wrap its service offerings in MRI, cardiac cath, open-heart surgery, obstetrical, and pediatric emergency around any existing local provider that does not offer the full range of services. The applicant submits that it currently contracts with several commercial managed care payers that cover thousands of patients residing in Mississippi. The acute and emergency care options for the patients are presently located in Tennessee due to exclusive agreements. Increasing travel times and rising travel expenses place undue burdens on patients and their families. Methodist is committed to eliminate the need to travel outside of the State for care and bring quality acute services closer to the homes of many Mississippi.

Methodist does not expect to adversely impact the other providers in the service area. However, staff contends that since the proposed application complies with the conditions required to establish a new hospital as contained in the *FY 2010 State Health Plan* staff believes that it will not have an adverse impact on existing providers. In addition, all of the cardiac cath and open-heart facilities in the area are performing at the required level to show need for another unit.

GR Criterion 9 - Availability of Resources

Methodist submits that a total of 480.5 FTEs will be needed at the new location in 2013, the first full year of operation, and that it will have over three years to accomplish that recruitment.

The applicant states that the largest classes of associates needed to staff the new facility include RN's and technical/paramedical personnel. It further states that Methodist has a significant number, over 400, of this type of clinician who live in Mississippi. The new facility proposed for Olive Branch will offer them the option to work closer to home and maintain the link with the Methodist culture. Methodist

states that it also has affiliations with multiple colleges, which will provide another main source for recruitment.

Methodist states that over the last several years it has implemented a host of strategies focused on attracting and retaining qualified personnel. Methodist believes that it compares favorably with national benchmarks for low turnover and for nursing hours per patient day and RN skill mix.

A letter of opposition received expressed concerns regarding the nursing shortage in the area and the state as a whole and that the project will dilute “an already stressed labor pool”.

GR Criterion 10 – Relationship to Ancillary or Support Services

The applicant states that Methodist Olive Branch will provide a full range of ancillary and support services to support the hospital. These ancillary services will include operating room, lab, blood bank, pharmacy, radiology, respiratory, physical therapy, rehab, and emergency. The support services include, but are not limited to, plant operations, utilization management, admissions, housekeeping, HIM/transcription, and other administrative services.

GR Criterion 14 - Construction Projects

The application contains a cost estimate prepared by Tro Jung/Brannen Architects and a schematic drawing of the proposed construction project.

The total project will cost \$329 per square foot for new construction of the new hospital (see Attachment 2). The *Means Building Construction Cost Data, 2009 Edition*, lists new construction costs for hospitals ranging from \$185 to \$315 per square foot. This project exceeds the high range for construction listed in this publication.

GR Criterion 16 - Quality of Care

The applicant indicates that Methodist Le Bonheur Healthcare has a long history of quality care and a lengthy list of awards and initiatives that demonstrate its commitment to continuous quality improvement.

The applicant indicates that Methodist Le Bonheur Healthcare has participated in quality initiatives from Tennessee Center for Performance Excellence, Center for Medicare & Medicaid Services/Premier Healthcare Alliance, and other organizations, including the Premier/CMS Hospital Quality Incentive Demonstration project. In addition to participating in such special initiatives, MLH monitors clinical quality using such tools as the Balanced Scorecard, Clinical Quality Report, and Patient Safety Dashboard, and proactively launches multi-department/facility improvement projects based on the latest metrics and trends.

In addition, Methodist asserts that it is in the middle of completing the multi-year project to implement an Electronic Medical Record. Methodist's goals are to have one complete, easily accessible source of patient information, increase patient safety, increase patient, physician, and associate satisfaction, and improve efficiency and coordination of care. The project supports Methodist's continued transformation of patient care, Methodist plans to offer its high quality, patient and family centered care to all patients seeking care at its Olive Branch facility, and feels this innovative approach to service delivery will distinguish them in the service area.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

The total estimated capital expenditure is allocated as follows:

Cost Item	Projected Cost	% of Total
Construction Cost - New	\$ 64,600,000	47.13%
Construction Cost - Renovation	-	0.00%
Capital Improvements	-	0.00%
Total Fixed Equip Cost	10,400,000	7.59%
Total Non-Fixed Equip Cost	30,200,000	22.03%
Land Cost	3,000,000	2.19%
Site Prep Cost	3,250,000	2.37%
Other - Site Expense Escalation	230,000	0.17%
Fees - architectural, engineering, etc.	6,785,000	4.95%
Fees - legal and accounting	250,000	0.18%
Contingency Reserve	5,770,000	4.21%
Other - Building Expense Escalation	5,400,000	3.94%
Capitalized Interest	-	0.00%
Other Cost (other equipment & other escalation contingency)	7,195,000	5.25%
Total Proposed Expenditures	\$ 137,080,000	100%

B. Method of Financing

The applicant proposes to fund the project with cash reserves. Methodist Healthcare audited financial statements for 2006 to 2008 show insufficient cash on hand as of 2008 (\$46,595,000) to entirely fund the cost of the project. Additionally, it is noted that the financial statements show a \$67M drop in cash on hand from \$113,900,000 in 2007 to \$46,595,000 in 2008.

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	14	\$38,727,914
Medicare	26	71,923,269
Commercial	55	152,145,376
Self Pay	5	13,831,398
Total	100.0	\$276,627,957

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 increased annual cost to Medicaid to be \$8,761,072 in inpatient hospital services. Any portion related to outpatient services would be paid as outlined in the Medicaid's *State Plan*. The Division of Medicaid opposes this project.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the criteria and standards for the construction/establishment of a general acute care hospital, acquisition or otherwise control of MRI equipment, and the acquisition or otherwise control of cardiac catheterization and open-heart surgery equipment and services, as contained in the *FY2010 State Health Plan; the Mississippi Certificate of Need Review Manual, Revised September 1, 2009*; 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 Methodist Healthcare-Olive Branch for the establishment of a 100-bed acute care hospital, acquisition or otherwise control of MRI, cardiac catheterization and open-heart surgery equipment and establishment of related services. The certificated shall be conditioned as following:

- 1) Provide an amount of indigent care in excess of the average of the hospitals in the General Hospital Service Area as determined by the State Health Officer or at least 4.1%;**
- 2) Provide an amount of Medicaid care in excess of the average of the hospitals in the General Hospital Service Area as determined by the State Health Officer or at least 16%;**

- 3) Establish outpatient services in Tunica County or any other adjacent county without a hospital;**
- 4) Fully participate in the Trauma Care System at a level to be determined by the Department for a reasonable number of years to be determined by the State Health Officer; and**
- 5) Participate as a network provider in the State and School Employees' Health Insurance Plan as defined in Mississippi Code Section 25-15-3 and 25-15-9.**

Attachment 1
Methodist Healthcare-Olive Branch Hospital
100-Bed Acute Care Hospital
Three-Year Projected Operating Statement

	Year 1	Year 2	Year 3
Patient Revenue			
Inpatient Revenue	\$ 157,795,356	\$ 209,167,219	\$ 268,824,495
Outpatient Revenue	118,832,601	146,173,009	177,703,170
Total Patient Revenue	\$ 276,627,957	\$ 355,340,228	\$ 446,527,665
Charity Care	- 14,525,867	- 18,987,184	- 24,322,639
Deductions	<u>- 199,212,017</u>	<u>- 257,401,933</u>	<u>- 325,219,955</u>
Total Deductions from Revenue	\$ 213,737,884	\$ 76,389,117	\$ 349,542,594
Net Patient Revenue	<u>\$ 62,890,073</u>	<u>\$ 78,951,111</u>	<u>\$ 96,985,071</u>
Other Operating Revenue	50,948	65,557	81,785
Net Revenue	<u>\$ 62,941,021</u>	<u>\$ 79,016,668</u>	<u>\$ 97,066,856</u>
Operating Expenses			
Salaries & Wages	\$ 29,049,872	\$30,103,822	\$36,023,368
Benefits	6,941,303	7,194,094	8,621,058
Services	2,842,647	3,060,653	3,296,792
Commodities/Supplies	11,083,217	13,924,221	17,095,126
Interest	4,797,800	4,797,800	4,797,800
Depreciation	9,743,264	9,755,764	9,780,764
Other	11,404,248	13,085,827	\$14,550,909
Total Operating Expenses	<u>\$ 75,862,351</u>	<u>\$ 81,922,181</u>	<u>\$ 94,165,817</u>
Income (Loss) from Operations	\$ (12,921,330)	\$ (2,905,513)	\$ 2,901,039
Inpatient Days	17,316	21,743	26,471
Outpatient Days	13,040	15,195	17,498
Total Patient Days	30,356	36,938	43,969
Occupancy Rate	47	60	73
Charge per inpatient day	\$ 9,113	\$ 9,620	\$ 10,156
Charge per outpatient day	\$ 9,113	\$ 9,620	\$ 10,155
Cost per inpatient day	\$ 4,381	\$ 3,768	\$ 3,557
Cost per outpatient day	\$ 5,818	\$ 5,391	\$ 5,382

**Attachment 2
 Methodist Healthcare – Olive Branch
 Computation of Construction Cost**

<u>Cost Component</u>	<u>Total</u>	<u>New Construction</u>	<u>Renovation</u>
New Construction Cost	\$64,600,000	\$64,600,000	
Renovation Cost			\$0
Total Fixed Equipment Cost	\$10,400,000	\$10,400,000	
Total Non-Fixed Equipment Cost	\$30,200,000	\$0	
Capital Improvement	\$0		
Land Cost	\$3,000,000	\$0	
Site Preparation Cost	\$3,250,000	\$3,250,000	
Fees (Architectural, Consultant, etc.)	\$6,785,000	\$6,785,000	\$0
Contingency Reserve	\$5,770,000	\$5,770,000	\$0
Capitalized Interest		\$0	\$0
Other - Escalation	\$230,000		
Other - Escalation/Contingency	\$7,195,000		
Legal and Accounting Fees	\$250,000		
Total Proposed Capital Expenditure	\$137,080,000	\$90,805,000	\$0
Square Footage	276,000	276,000	0
Allocation Percent		100.00%	0.00%
Costs Less Land, Non-Fixed Eqt.& Other Costs	\$90,805,000	\$90,805,000	\$0
Cost Per Square Foot	\$329	\$329	
Cost per Bed (n=100)	\$1,370,800		