

**MISSISSIPPI STATE DEPARTMENT OF HEALTH  
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT  
NOVEMBER 2010**

**CON REVIEW HG-CRF-0610-026  
HARDY WILSON MEMORIAL HOSPITAL  
CONSTRUCTION/REPLACEMENT/RELOCATION  
OF HARDY WILSON MEMORIAL HOSPITAL  
CAPITAL EXPENDITURE: \$20,000,000  
LOCATION: HAZLEHURST, COPIAH COUNTY, MISSISSIPPI**

**STAFF ANALYSIS**

**I. PROJECT SUMMARY**

**A. Applicant Information**

Hardy Wilson Memorial Hospital (“Hardy Wilson”), a Level IV Trauma Center, is located at 233 Magnolia Street, Hazlehurst, Copiah County, Mississippi. Hardy Wilson is a non-profit general medical and surgical short-term hospital owned by Copiah County. The hospital is licensed to operate 35 beds (10 acute care, 15 swing beds, and 10 geropsychiatric, which are now in abeyance) and is governed by a board of trustees. Hardy Wilson is certified to participate in the Medicaid and Medicare programs.

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

**Hardy Wilson Memorial Hospital  
Utilization Data**

<b>Fiscal Year</b>	<b>Occupancy Rate (%)</b>	<b>ALOS (Days)</b>	<b>Medicaid Utilization Rate (%)</b>
2006	56.39	7.19	6.88
2007	50.53	6.56	not available
2008	59.93	6.61	1.60

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

**B. Project Description**

Hardy Wilson requests Certificate of Need (CON) authority for the construction/replacement and relocation of the Hospital. The applicant states that the building was originally constructed in 1950, with the latest major expansion occurring in 1980.

The applicant asserts that the proposed project consist of building a 50,000 square feet replacement facility on approximately 22 acres located ¼ mile to the west of interstate 55 on Mississippi Highway 28. The replacement facility will be approximately 2 miles from the existing facility. The site is in a rural area and will require all necessary improvements including attachments to city water, sewer, and electricity. The improvements will include

proper grading for drainage and parking. The service area will remain the same and no new beds, equipment, services, or staff will be required as a result of the project.

The applicant contends that the facility design of the proposed project will allow for more efficient and effective care of patients, provide patient and family waiting space, HIPAA compliant registration areas, and ease of access and parking for patients coming for outpatient procedures.

The applicant intends to seek financing of \$13,500,000 through a USDA loan and fund \$6,500,000 through the hospital's accumulated cash reserves. The applicant indicates that the anticipated date for obligation of the proposed capital expenditure is January 1, 2011 or 30 days post CON approval and the proposed project will be complete by December 31, 2012 or 25 months from the CON effective date.

The total proposed capital expenditure is \$20,000,000 and of that amount, approximately 59 percent is for new construction, 11 percent for non-fixed equipment cost, 3 percent for land cost, 1 percent for site preparation, 7 percent for fees, 9 percent for contingency reserve and a small percentage for other costs.

On March 10, 2010, the MSDH Division of Health Facilities Licensure and Certification affirmed that the site meets all applicable requirements. Therefore, the division found the site to be acceptable for the stated use.

## II. TYPE OF REVIEW REQUIRED

The Mississippi State Department of Health reviews applications for construction, renovation, replacement, expansion, or capital improvement involving a capital expenditure in excess of \$2,000,000, under the applicable statutory requirements of Section 41-7-191, subparagraph (1)(b), (e), and (j) 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.

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 6, 2010.

## 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 criteria and standards which an applicant is required to meet before receiving CON authority for construction, renovation, expansion, capital improvement involving a capital expenditure in excess of \$2,000,000, and replacement of health care facilities. The application is in substantial compliance with these criteria.

**Note:** All projects are reviewed under the State Health Plan in effect at the time of submission. This project was received June 22, 2010, and the FY 2011 State Health Plan has an effective date of September 8, 2010.

### **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.). In addition, for projects which involve construction, renovation, or expansion of emergency department facilities, the applicant shall include a statement indicating whether the hospital will participate in the statewide trauma system and describe the level of participation, if any.

According to the applicant, Hardy Wilson was constructed in 1950, with the last major expansion occurring over thirty years ago in 1980. The applicant documents that it became apparent within the last ten years that investing significant capital into the current outmoded facility was not feasible and Hardy Wilson leadership began contemplating and planning a replacement facility. The applicant submits that in preparation, Hardy Wilson leadership commissioned a study by Stroudwater Consulting to perform a facility condition analysis and quantify the costs for renovation versus full replacement.

Hardy Wilson submits that the Stroudwater's report was issued in late 2007 which recommended relocation and replacement of the current facility to a more visible and readily accessible site, given that the costs to renovate roughly equaled the cost to replace. Furthermore, due to the age of the facility and inherent structural and site problems the facility needs to be replaced. Listed below are some of the concerns revealed by the Stroudwater report:

- Sixty percent of domestic water piping is 57 years old.
- Galvanized piping is embedded in plaster walls.
- The hot water piping is in very poor condition.
- The cast iron sewage piping is in need of replacement. The piping has become thin and replacement would be a real challenge.
- The soil that the hospital is built on shifts. As a result, the building is in a great deal of stress.
- There are numerous cracks in the walls and floors.
- Doors do not close.
- The hospital has no insulated windows.
- The bathrooms are not handicap accessible.
- The main electrical distribution panels are from 1950, 1960, and 1980. The electrical room has no provisions for ventilation. The electrical breaker that is needed for replacement in the panels is obsolete and very expensive to replace.

According to the applicant, upon the advice of the Stroudwater Consulting Firm, the only viable alternative available for Hardy Wilson is to replace the facility with a newly constructed building. Furthermore, after examining the financial, clinical, strategic, and labor parameters that Hardy Wilson operates within, the proposed project is the facilities' most optimal alternative.

Hardy Wilson is the only hospital in Covich County and a Level IV Trauma Center.

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

This project does not involve the transfer/reallocation or relocation of beds.

**SHP Criterion 3 – Uncompensated Care**

The applicant submits the following percentages of historical and projected gross patient revenue provided or to be provided to the medically indigent/charity care patients for the past two years and for the first two years upon completion of this project:

**Gross Patient Revenue  
Amount**

	<b>Medically Indigent (%)</b>	<b>Charity Care (%)</b>
Historical Year 2008	3.0	3.0
Historical Year 2009	4.5	3.0
Projected Year 1	3.8	3.0
Projected Year 2	3.8	3.0

**SHP Criterion 4- Reasonableness of Cost**

The calculation for the new construction of the replacement facility consisting of 50,000 square feet of space is \$300.57 per square foot. *The Means Building Construction Cost Data, 2010 Edition* lists the cost for new hospital construction ranging from \$182 to \$310 per square foot. Therefore, the proposed project's cost is reasonable when compared to other similar projects listed in the Means Building Construction Cost Data.

The applicant states that no new fixed equipment will be purchased; however, non-fixed equipment will only be 11.85 percent of cost and do not exceed the median costs for equipment of similar quality by more than 15 percent.

**SHP Criterion 5 – Floor Area and Space Requirements**

The applicant specified the floor areas and space requirements of the project. The gross square footage of the proposed replacement facility is estimated to be 50,000 square feet. The applicant states that the design was completed by McCarty Architects, a licensed architect, and is in accordance with AIA guidelines and other regulatory requirements.

**SHP Criterion 6 – Renovation vs Replacement**

The applicant proposes to replace the hospital in lieu of renovation. The applicant states that the hospital has operated within the same building since 1950 with significant expansions in

1961 and 1980. Since 1980, no major renovations or expansions have transpired. Furthermore, the hospital is currently located inside a residential area that built up around the hospital over its 60 years of operation. The applicant document that on the north side of the hospital is a lake; therefore, the hospital is landlocked from performing any wide scale additions or renovations.

### **SHP Criterion 7 – Need for Specific Services**

The proposed project is for the construction/replacement and relocation of the Hardy Wilson Memorial Hospital. The applicant is not proposing to expand any services.

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

Chapter 8 of the *Mississippi Certificate of Need Review Manual, Revised May 1, 2010*; addresses general criteria by which all CON applications are reviewed. This application is in substantial compliance with general review criteria.

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

According to the applicant, Hardy Wilson commissioned a study by Stroudwater Consulting to perform a facility condition analysis and quantify the cost for renovation versus replacement. This study would allow Hardy Wilson to make an informed decision whether it would be more economically feasible to renovate or replace. The results of the Stroudwater report recommended relocation and replacement of the current facility to a more visible and readily accessible site, given that the costs to renovate roughly equaled the cost to replace the facility. Therefore, the applicant believes that the proposed project is consistent with its long-range plans.

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

According to the applicant, several alternatives were considered and rejected.

One option the hospital considered was to do nothing and continue operating in the building in its existing condition. However, this alternative was rejected based on the population growth in the 45+ demographic and the physical facility constraints, i.e. age and overcapacity. Hardy Wilson must be improved to meet the code requirement of modern healthcare. Furthermore, doing nothing would further increase the outmigration of patients from Hardy Wilson's service area to other out of service area facilities.

The applicant also states that knowing the results of the Stroudwater study, doing nothing could in the near future, potentially compromise the safety and health of patients and employees. The costs to fix broken systems would be cost prohibitive and care would still be delivered in an outmoded context.

Another option that was considered was to renovate the existing facility. This option was rejected because it was determined that there is not enough space to accommodate the needed spaces for private rooms, as a large scale renovation would require extensive work to the infrastructure to meet current fire and safety codes and other licensure regulations. Furthermore, any renovations would result in increased operating inefficiencies and costs. In addition, the renovations would need to be fully systemic in nature requiring Hardy Wilson to

close wings during renovation. Thus, there is no available swing space for the needed renovations and the hospital is landlocked. Renovating means that the hospital will still be located in a residential neighborhood and can cause issues for emergency responders and can be a nuisance for the neighbors.

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

Based on the applicant's three-year projections, the facility will receive a net income of \$1,864,369, the first year, \$2,423,697 the second year, and \$2,811,159 the third year after replacement of the hospital.

a. **Proposed Charge:** The applicant submits that the replacement facility will continue to offer substantially the same services that it offers in its current facility; therefore, charges will not increase as a result of this project.

b. **Projected Levels of Utilization:** Hardy Wilson projects that its occupancy rates will increase to a level experienced by similar facilities in the hospital service area.

c. **Project's Financial Feasibility Study:** The application contains a financial feasibility study conducted by Fortenberry, CPA attesting to the feasibility of the project.

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

The applicant asserts that all residents of the area, including low income persons, racial and ethnic minorities, women, persons with disabilities, and other underserved groups, and the elderly, have access to the services provided at Hardy Wilson and will continue to have access to its services.

This application does not propose the relocation or addition of services and/or the addition of any new beds. According to Hardy Wilson, the proposed project involves the replacement and relocation of its 35-bed acute care facility.

The application contains nine (9) letters of support for the proposed project.

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

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

Hardy Wilson Memorial Hospital asserts that it serves 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.

The applicant states that the hospital has no existing obligations under any federal regulation requiring provision of uncompensated care, community service, or access by minority/handicapped persons.

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

The applicant asserts 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**

As it is the only hospital in Copiah County, Hardy Wilson believes that failure to implement the proposed project would be detrimental to providing healthcare to the under or non insured patients of Copiah County. This would result in patients having to travel outside of the service area for basic medical care.

The project is for the construction/replacement/relocation of the Hospital and does not contemplate the offering of any new service or the expansion of any existing services.

The applicant further states that Copiah County has been identified as both a health professional shortage area (HPSA) and medically underserved area (MUA). It would not be desirable to reduce the services available in either a HPSA or an MUA, but a lack of significant capital expenditures in many years indicates that the hospital's condition is deteriorating and the building will cease to be suitable for providing inpatient care.

Because no new services will be offered or expanded as a result of this project, staff concludes that this project would have no adverse affect on other providers in the referenced service area.

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

According to the applicant, the proposed project will not result in any additional resources.

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

- a. **Cost Estimate:** The application contains a cost estimate prepared by The McCarty Company Design Group, P.A. located in Tupelo, Mississippi.
- b. **Schematic Drawing:** The application contains a schematic drawing of the proposed project.
- c. **Space Allocations:** The applicant submits that space will conform to applicable local and state licensing standards.
- d. The project involves construction and relocation of a replacement facility.
- e. **Cost per Square Foot:** The proposed project involves approximately 50,000 square feet of new construction at an estimated cost of \$300.57 per square foot (See Attachment 1). The *Means Construction Cost Data, 2010* indicates the new construction costs range from \$182 per square foot to \$310 per square foot.

**GR Criterion 16 – Quality of Care**

Hardy Wilson Memorial Hospital 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 hospital is also certified to participate in the Medicare and Medicaid programs.

The applicant states that the hospital has in place an internal and external quality improvement program for the purpose of ensuring that the delivery of care to its patients is the highest quality of care and is delivered in the most efficient and effective manner.

**VI. FINANCIAL FEASIBILITY**

**A. Capital Expenditure Summary**

The total estimated capital expenditure is allocated as follows:

<b>Cost Item</b>	<b>Projected Cost</b>	<b>% of Total</b>
Construction Cost – New	\$ 11,850,000	59.25%
Construction Cost – Renovation	-	0.00%
Capital Improvements	-	0.00%
Total Fixed Equip Cost	-	0.00%
Total Non-Fixed Equip Cost	2,370,000	11.85%
Land Cost	549,100	2.75%
Site Prep Cost	200,000	1.00%
Fees – architectural, engineering, etc.	1,235,000	6.18%
Fees – legal and accounting	137,575	0.69%
Contingency Reserve	1,743,250	8.72%
Other – furnishings, IT Comm.	1,777,500	8.89%
Capitalized Interest	-	0.00%
Other Cost (moving/storage, etc)	<u>137,575</u>	<u>0.69%</u>
<b>Total Proposed Expenditures</b>	<b>\$ 20,000,000</b>	<b>100%</b>

The above capital expenditure is proposed for the new construction/replacement and relocation of Hardy Wilson Memorial Hospital. The proposed project involves approximately 50,000 square feet of new construction at an estimated cost of \$300.57 per square foot (see Attachment 1). The *Means Construction Cost Data, 2010*, lists new construction range from \$182 per square foot to \$310 per square foot.



**B. Method of Financing**

The applicant proposes to finance \$13,500,000 of this project through a USDA loan at a 4% interest rate and \$6,500,000 through its accumulated cash reserves. The cash flow statement submitted by the applicant indicates sufficient cash reserves to fund the project.

**VI. Effect on Operating Cost**

The applicant's three-year projections of revenues and expenses for the first three years of operation are provided in Attachment 2.

**VI. Cost to Medicaid/Medicare**

The applicant's projection of cost to third party payors is as follows:

<b>Patient Mix by Type Payer</b>	<b>Utilization Percentage (%)</b>	<b>First Year Revenue (\$)</b>
Medicaid	10%	\$ 3,242,500
Medicare	63%	20,427,751
Commercial	13%	4,215,250
Self Pay	4%	1,297,000
Charity Care	3%	972,751
Other	7%	2,269,751
<b>Total</b>	<b>100%</b>	<b>\$32,425,003</b>

**VI. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES**

The Division of Medicaid was provided an opportunity to review and comment on the proposed project. Based on their analysis, they estimate the increased annual cost to Medicaid to be \$78,586 for inpatient hospital services and outpatient services will be paid as outlined in the State Plan. Consequently, the Division of Medicaid opposes this transaction.

**VI. CONCLUSION AND RECOMMENDATION**

This project is in substantial compliance with the criteria and standards for the construction, renovation, expansion, capital improvements, replacement of health care facilities, and addition of hospital beds as contained in the *FY 2010 State Health Plan*; the *Mississippi Certificate of Need Review Manual, Revised May 1, 2010*; 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 the application submitted by the applicant for the construction/replacement and relocation of Hardy Wilson Memorial Hospital.

**Attachment I  
 Hardy Wilson Memorial Hospital  
 Computation of Renovation Cost\***

<b>Cost Component</b>	<b>Total</b>	<b>New Construction</b>	<b>Renovation</b>
New Construction Cost	\$11,850,000	\$11,850,000	
Renovation Cost	\$0		\$0
Total Fixed Equipment Cost		\$0	\$0
<b>Total Non-Fixed Equipment Cost</b>	<b>\$2,370,000</b>	<b>\$2,370,000</b>	<b>\$0</b>
<b>Land Cost</b>	<b>\$549,100</b>	<b>\$549,100</b>	
Site Preparation Cost	\$200,000	\$200,000	
<i>Fees (Architectural, Consultant, etc.)</i>	\$1,235,000	<i>\$1,235,000</i>	<i>\$0</i>
<i>Contingency Reserve</i>	\$1,743,250	<i>\$1,743,250</i>	<i>\$0</i>
<i>Capitalized Interest</i>	\$0	<i>\$0</i>	<i>\$0</i>
<i>Other</i>	\$1,915,075	<i>\$1,915,075</i>	<i>\$0</i>
<b>Total Proposed Capital Expenditure</b>	<b>\$19,862,425</b>	<b>\$19,862,425</b>	<b>\$0</b>
Square Footage	<b>50,000</b>	50,000	0
<i>Allocation Percent</i>		100.00%	0.00%
<b>Costs Less Land, Non-Fixed Eqt., Other</b>	<b>\$16,943,325</b>	<b>\$15,028,250</b>	<b>\$0</b>
<b>Cost Per Square Foot</b>		<b>\$300.57</b>	

\*Source: Mississippi Certificate of Need Review Manual, Revised May 1, 2010

Attachment 2  
 Hardy Wilson Memorial Hospital  
 Three-Year Projected Operating Statement (With Project)

	Year 1	Year 2	Year 3
<b>Patient Revenue</b>			
Inpatient Revenue	\$8,939,550	\$9,734,676	\$10,144,738
Outpatient Revenue	\$23,485,453	\$24,630,216	\$25,714,821
<b>Total Patient Revenue</b>	<b>\$32,425,003</b>	<b>\$ 34,364,892</b>	<b>\$35,859,559</b>
<b>Deductions from Revenue</b>			
Charity Care	\$972,751	\$1,062,951	\$1,075,787
Deductions from Revenue	<u>\$13,587,951</u>	<u>\$14,384,834</u>	<u>\$ 15,023,236</u>
<b>Total Deductions</b>	<b>\$14,560,702</b>	<b>\$15,447,785</b>	<b>\$16,099,023</b>
<b>Net Patient Revenue</b>	<b><u>\$17,864,301</u></b>	<b><u>\$18,917,107</u></b>	<b><u>\$19,760,536</u></b>
Other Operating Revenue	(809,966)	(912,675)	(965,045)
<b>Net Revenue</b>	<b><u>\$17,054,335</u></b>	<b><u>\$18,004,432</u></b>	<b><u>\$18,795,491</u></b>
<b>Operating Expenses</b>			
Salaries & Wages	\$4,980,004	\$5,129,404	\$ 5,283,286
Benefits	1,507,310	1,552,530	1,599,105
Supplies	2,073,688	2,144,256	2,217,451
Services	430,861	445,523	460,731
Lease			
Depreciation	1,138,667	1,138,667	1,138,667
Interest	1,286,841	1,269,377	1,250,953
Other	3,772,595	3,900,978	4,034,139
<b>Total Operating Expenses</b>	<b><u>\$15,189,966</u></b>	<b><u>\$15,580,735</u></b>	<b><u>\$15,984,332</u></b>
<b>Income (Loss) from Operations</b>	<b>\$ 1,864,369</b>	<b>\$ 2,423,697</b>	<b>\$ 2,811,159</b>
<b>Assumptions</b>			
Inpatient Days	5,502	5,924	6,103
Outpatient Days/Visits	14,464	15,042	15,579
Charge per inpatient day	1,625	1,643	1,662
Charge per outpatient day	1,624	1,637	1,651
Cost per inpatient day	2,761	2,630	2,619
Cost per outpatient day	1,050	1,036	1,026