

**DIVISION OF HEALTH PLANNING
AND RESOURCE DEVELOPMENT
MAY 2002**

**CON REVIEW HG-R-0302-015
BAPTIST MEMORIAL HOSPITAL-DESOTO
SUPPORT AREAS RENOVATIONS AND EQUIPMENT ADDITIONS
CAPITAL EXPENDITURE: \$5,927,790
LOCATION: SOUTHAVEN, MISSISSIPPI**

STAFF ANALYSIS

I. Project Information

A. Applicant Information

Baptist Memorial Hospital DeSoto, Inc. (BMH-DeSoto) is a non-profit, short-term acute care hospital, whose sole member is Baptist Memorial Health Care Corporation, a Tennessee non-profit corporation. The hospital is governed by a 13-member Board of directors, and is accredited by the Joint Commission on Accreditation of Healthcare Organizations.

The facility's licensed bed capacity includes 169 medical/surgical beds and 30 rehabilitation beds, for a total of 199 beds. Occupancy rates, average lengths of stay (ALOS) and Medicaid utilization rates for medical/surgical beds for the three most recent fiscal years at BMH-DeSoto are as follows:

**Baptist Memorial Hospital-DeSoto
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
1999	71.02	4.13	13.00
2000	73.29	4.38	22.00
2001	87.89	4.58	29.00

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

B. Project Description

BMH-DeSoto requests Certificate of Need (CON) authority for the renovation of various hospital support areas and additional equipment. BMH-DeSoto proposes to provide adequate locations and spaces for hospital-related services by renovating areas in an attached building formerly used primarily for physicians' offices. In addition to relocating hospital departments that require traditional business office configurations, the Chapel will be moved a newly enclosed area adjacent to the hospital, and patient care areas for urodynamics, ostomy and cardiopulmonary services will be expanded. The applicant states that the Division of Licensure and Certification has previously approved the hospital site and provided a copy with the application.

II. TYPE OF REVIEW REQUIRED

The MSDH review applications for construction, renovation, and major medical equipment replacement in accordance with Section 41-7-191, subparagraphs (1) (f) and (j), Mississippi Code 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 of 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 June 4, 2002.

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

A. State Health Plan (SHP)*

The *FY 2002 State Health Plan* addresses policy statements and specific criteria and standards which an applicant is required to meet before receiving CON authority for construction and renovation. This application is in substantial compliance with applicable criteria and standards. This proposal is for the renovation of support areas and addition of equipment.

SHP Criterion 1 - Need

The applicant states that based on conclusions made by space planning consultants, this project for support area renovations and additional equipment is much needed. The proposed construction and renovations will ensure that the space for existing services is adequate in size and configuration to enhance productivity and service to the community with the state of the art tools. Also, this project includes state of the art equipment for all areas with new technology for traditional services provided in the laboratory and cardiopulmonary areas.

B. General Review (GR) Criteria

Chapter 8 of the Mississippi Certificate of Need Review Manual, revised May 13, 2000, addresses general criteria by which all CON applications are reviewed.

GR Criterion 3 - Availability of Alternatives

The alternative considered by the applicant was to consolidate support services at a separate location from the hospital and reduce the need for space at the facility. However, after further evaluation, maintaining the services at the hospital was determined to be more effective. This proposal for renovating existing space attached to the hospital is the most cost effective, efficient option that ensures continued convenient access by patients, and staff and promotes responsive attention to patient needs and productive completion of activities.

GR Criterion 4 - Economic Viability

Based on the applicant's three year projections, this project will be economically viable the first three years of operation with net income of \$5,301,950, \$8,594,408, and 12,094,887 the first second and third years, respectively.

The application included financial feasibility study indicating there ability to undertake the project.

GR Criterion 5 - Need for Services

The need for additional space for support services was evaluated by space planning consultants and determined to be a need for the facility several years ago. Furthermore, a separate location for many of the support services was anticipated. The separate location would consolidate similar services from many hospitals within the Baptist Memorial System and would have reduced the need for space at the hospital. This proposal to renovate the adjacent building however, will ensure continued convenient access by patients and staff and will promote responsive attention to patient needs and productive completion of activities. Also, the increase in the clinical services supports the need for additional space. In addition, new equipment for all areas with new technology for traditional services provided in the laboratory and cardiopulmonary areas will be provided.

GR Criterion 6 - Access to the Facility or Services

According to the applicant, all residents of the service area have access to the services of the existing facility. They will continue to have access to the proposed services.

GR Criterion 7 - Information Requirement

BHM-DeSoto affirms that it will record and maintain the requested information and make it available to the Mississippi State Department of Health within 15 days of request.

GR Criterion 10 - Relationship to Ancillary or Support Services

The services in this proposal currently exist and are primarily for support of other clinical services at BMH-Desoto. The effect at BMH-DeSoto will be an improved work environment. The project is not anticipated to affect other facilities.

GR Criterion 16 - Quality of Care

Baptist Memorial Hospital-DeSoto is in compliance with the Minimum Standards of Operation for Mississippi Hospitals according to the Division of Health Facilities Licensure and Certification. BMH-DeSoto is accredited through the Joint Commission on Accreditation of healthcare Organizations, and licensed by the Mississippi State Department of Health Division of Licensure and Certification.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

Construction Cost - New	\$ 180,000
Construction Cost - Renovation	3,216,000
Capital Improvement Costs	30,000
Total Fixed Equipment Cost	495,000
Total Non-Fixed Equipment Cost	1,162,430
Fees	321,760
Contingency Reserve	339,600
Capitalized Interest	<u>183,000</u>
TOTAL ESTIMATED PROJECT COST	<u>\$ 5,927,790</u>

The new construction will consist of 1,200 square feet at a cost of \$150 per square foot. Renovation consist of approximately 30,045 square feet at a cost of \$108 per square foot. According to the Means Construction Cost Data, 2002, the cost for the median range is \$157 and the high range is \$233.

B. Method of Financing

The applicant states that this project will be financed through a loan from Baptist Memorial Health Care Corporation. The applicant provided documentation to support the Corporation's ability to finance the project.

C. Effect on Operating Cost

The applicant projects the following expenses, utilization, and results from operation for the first three years following completion of the project.

Expenses	Year 1	Year 2	Year 3
Salaries, Wages,Benefits	\$38,986,437.00	\$40,146,030.00	\$41,360,711.00
Medical Expense	\$19,281,014.00	\$19,859,445.00	\$20,455,228.00
Non-Medical Expense	\$1,793,575.00	\$1,847,382.00	\$1,902,804.00
Fees & Purchased Serv.	\$15,369,071.00	\$15,830,144.00	\$16,305,047.00
Repairs & Maintenance	\$1,310,641.00	\$1,349,960.00	\$1,390,459.00
Insurance Expense	\$1,067,533.00	\$1,099,559.00	\$1,132,546.00
Utilities Expense	\$1,184,958.00	\$1,220,506.00	\$1,257,122.00
Other Expense	\$620,886.00	\$639,513.00	\$658,698.00
Bad Debt	\$17,690,865.00	\$18,221,591.00	\$18,768,239.00
Total Operating Expenses	\$97,304,981.00	\$100,224,130.00	\$1,032,308,554.00

Revenue	Year 1	Year 2	Year 3
Inpatient Revenue	\$151,280,087.00	\$157,391,803.00	\$163,750,431.00
Outpatient Revenue	\$57,955,476.00	\$60,296,877.00	\$62,732,871.00
Total Revenue	\$209,235,563.00	\$217,688,680.00	\$226,483,303.00
Deductions from Revenue:			
Contractual Adjust.	<\$97,893,492>	<\$99,851,363>	<\$101,848,391>
Charity Adjust.	<\$2,322,489>	<\$2,416,318>	<\$2,523,937>
Total Deductions from Revenue	<\$100,215,982>	<\$102,267,681>	<\$104,362,329>
Net Patient Revenue	\$109,019,581.00	\$115,420,999.00	\$122,120,974.00
Other Operating Revenue	\$1,116,449.00	\$1,116,449.00	\$1,116,449.00
Net Operating Revenue	\$110,136,030.00	\$116,537,448.00	\$123,237,423.00
Income before Interest & Depr.	\$12,831,050.00	\$16,313,318.00	\$20,006,569.00
Depreciation Expense	\$6,953,008.00	\$7,211,582.00	\$7,475,327.00
Interest Expense	\$2,321,940.00	\$2,288,093.00	\$2,252,735.00
Income after Interest & Depreciation	\$3,556,102.00	\$6,813,643.00	\$10,278,507.00
Non-operating Revenue	\$1,745,848.00	\$1,780,765.00	\$1,816,380.00
NET INCOME	\$5,301,950.00	\$8,594,408.00	\$12,094,887.00

D. Cost to Medicaid/Medicare

The applicant states that this project will not affect various payors.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for review. The Department received a letter from the Division of Medicaid stating that Medicaid will not be effected and takes no position on the project.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with creature and standards contained in the FY 2002 State Health Plan, the Certificate of Need Review Manual, revised 2000, 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 Baptist Memorial Hospital-DeSoto for Support Areas Renovations and Equipment Additions.