

**DIVISION OF HEALTH PLANNING  
AND RESOURCE DEVELOPMENT  
AUGUST 2013**

**CON REVIEW HG-C-0613-010  
MISSISSIPPI METHODIST HOSPITAL AND REHABILITATION CENTER, INC.  
d/b/a METHODIST OUTPATIENT REHABILITATION  
CONSTRUCTION OF CONSOLIDATED OUTPATIENT THERAPY FACILITY  
CAPITAL EXPENDITURE: \$5,872,945  
LOCATION: RIDGELAND, MADISON COUNTY, MISSISSIPPI**

**STAFF ANALYSIS**

**I. PROJECT SUMMARY**

**A. Applicant Information**

Mississippi Methodist Hospital and Rehabilitation Center, Inc. d/b/a Methodist Outpatient Rehabilitation (“Methodist” or the “Hospital”) is a not-for-profit corporation that is part of the Methodist Rehabilitation system and owns Mississippi Methodist Rehabilitation Center, a rehabilitation hospital in Jackson, Mississippi. The 144-bed rehabilitation Hospital is governed by twenty officers and directors, is accredited by the Joint Commission, and is certified to participate in the Medicaid and Medicare programs.

The bed complement of Methodist consists of 44 short-term acute care beds and 80 rehabilitation beds.

**B. Project Description**

Methodist has provided inpatient rehabilitation 1350 East Woodrow Wilson Drive, Jackson, Mississippi since 1975. Methodist operating as Methodist Rehabilitation System provides outpatient therapy services at three clinic locations in the Jackson Metropolitan area. At these clinics, Methodist treats patients with a wide range of injuries. These clinics are presently:

1. Quest Therapy Facility, 1910 Lakeland Drive, Suite C, Jackson
2. Clinic at 670 Highway 51, Ridgeland; and
3. Fitness Lady Health Club, 331 Sunnybrook Road, Ridgeland.

The three clinic locations are all leased by Methodist and each location is coming for renewal of the lease. Methodist is proposing the construction of a 12,300 square foot building at the 47<sup>th</sup> block of Jackson Street in Ridgeland for the consolidated relocation of all operations at the three described outpatient clinics. Methodist states that the new building will be designed and built to accommodate and improve delivery services for Methodist’s patients. The building will include a therapy pool for

the treatment of patients. The building will include private treatment rooms, evaluation rooms, therapy kitchen, dedicated aerobics room, dedicated mat therapy areas, neurotherapy space and separate areas for speech therapy, psychology evaluation, computer training and testing.

Methodist suggests that the benefits of the building and consolidation of the clinics includes improvement of efficiency of staffing and administration; improvement of delivery of therapy services to patients; and convenience to the patients in reduction of therapy wait times. Methodist states that the control of its own building and the consolidation the outpatient services will help it offer the benefits because of the reduction of staff management and travel between the various sites.

The applicant does not project need for additional staffing because existing staff at the three clinics will be relocated to the consolidated clinic building.

The total proposed capital expenditure is \$5,872,945, which includes \$3,555,700 for new construction, \$200,000 for fixed equipment and \$635,500 for non-fixed equipment (See Expenditure Summary for complete percentage breakdown of capital expenditure). The applicant projects that the capital expenditure will be obligated within three months of CON approval and the project will be complete within 12 to 14 months of commencement.

The applicant indicates the proposed capital expenditure will be funded from the hospital's accumulated cash reserves.

The MSDH Division of Health Facilities Licensure and Certification has approved the site for outpatient physical therapy services, as proposed.

## **II. TYPE OF REVIEW REQUIRED**

This project is reviewed in accordance with Section 41-7-173, 41-7-191 1(j), and 41-7-193 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 September 19, 2013.

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

#### A. State Health Plan (SHP)

The *FY2013 State Health Plan* contains criteria and standards which the applicant is required to meet before receiving CON authority for construction, renovation, and expansion of projects involving a capital expenditure in excess of \$2,000,000. This application is in substantial compliance with the applicable criteria stated in the *Plan* as follows:

##### **SHP Criterion 1 - Need**

**Projects which do not involve the addition of any comprehensive medical rehabilitation beds.**

Methodist's application is for the consolidation of outpatient therapy services that it already provides in the community. This project does not involve the expansion of services, but rather a consolidation of the services provided to one location. Methodist anticipates that its utilization will remain the same as before the consolidation.

The need for the project is reflected in the desire of Methodist to address efficiency in both management and administration by the consolidation of three clinics and locations into one building to meet the needs of all three outpatient clinics. The efficiencies are expected in both overall management of the clinics and direct patient care as detailed previously in the project description.

Methodist suggests that the project is constant with the four goals of the *SHP*:

1. To Improve the health of Mississippi residents - better efficiency will result in improved delivery of outpatient services;
2. To increase the accessibility, acceptability, continuity, and quality of health services - the proposed building and location will serve the same patients in the approximate same area;
3. To prevent unnecessary duplication of health resources - the project is a consolidation of current services; and
4. To provide some cost containment - better management of a single location should result in cost savings versus management of three locations, and the better efficiency of services to the patient should be expected.

It is acceptable that the project appears to be constant with the four goals of the *SHP*. It is also expected that the project will result in better outpatient care for the services provided due to the greater efficiencies of scheduling patient care and staffing.

### **Charity/Indigent Care**

The applicant submits that its clinics currently provides outpatient therapy services to Medicare, Medicaid and medically indigent patients and this will continue after the consolidation of the clinics. Methodist states that it will continue to provide a reasonable amount of indigent/charity care to the residents of its service area. The following table is a breakdown of historical and projected gross patient revenue provided or to be provided to medically indigent/charity patients.

	Medically Indigent/Charity Care (\$)	Medically Indigent/Charity Care (%)
Fiscal Year 2012	\$10,092	0.31%
Fiscal Year 2013	\$19,752	0.76%
Projected Year 1	\$27,527	0.76%
Projected Year 2	\$28,903	0.76%

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

Chapter 8 of the *Mississippi Certificate of Need Review Manual, Revised September 1, 2011*; addresses general criteria by which all CON applications are reviewed. This application is in substantial compliance with general review criteria contained in the manual.

#### **GR Criterion 1- Consistency with the *State Health Plan***

The project is in substantial compliance with applicable criteria, standards, and policies of the *FY 2013 Mississippi State Health Plan*.

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

The applicant currently provides outpatient therapy services to its patients in three locations all in rented space. The applicant states that it came to the conclusion to better treat patients in the future, it would need one building large enough to treat all patients.

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

The applicant considered either continuing operating the three clinic locations under separate leases or the proposed project, one large building consolidating the three clinics.

One option considered was to continue operating at its current locations. The applicant prefers to build one large building. For the building location, the applicant considered two locations in Ridgeland. One site would have been directly on the Interstate 55 frontage road under construction in Ridgeland and the proposed site that is not on the frontage road, but still accessible to Interstate 55. The applicant decided to not construct on the proposed Interstate 55 frontage road due to uncertainty about construction timeline of the frontage road and what business may locate next to the building.

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

The applicant asserts that charges are anticipated to change slightly from those currently in place. The applicant is only able to assess its own charges based on current and expected utilization and reimbursement. Methodist is unable to compare charges and costs for other outpatient facilities because it does not have access to others' profitability numbers.

Based on the applicant's financial projections (Project ONLY), the operations of this project will result in a net income of \$37,369 the first year, \$49,385 the second year, and \$61,936 the third year after completion of the project.

The application contained a letter from the hospital's chief financial officer attesting to the financial feasibility of the project. The applicant states that in the event it is not able to meet projected revenues that the parent company will cover expenses.

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

- a. **Access by Population Served:** The applicant states that its current patients will continued to be served and that the traditionally underserved patients in need of outpatient therapy will have access to the services of the clinic.
- b. **Relocation of Services:** This application does not propose the relocation of services as addressed by this criterion, but rather a consolidation of services in the same area.
- c. **Current and Projected Utilization of Like Facilities in the Area:** Methodist believes its projected utilization will be similar to its current utilization. Since the applicant does not have access to other like outpatient therapy service providers in the area, it is unsure of the affect on other like outpatient clinics. It is reasonable to estimate that the impact on other outpatient therapy clinics

will be minor because Methodist does not expect an expanded utilization, but rather just a consolidation of its patients from its current clinics.

- d. **Probable Effect on Existing Facilities in the Area:** As stated above, the project is not expected to have an adverse impact on other outpatient therapy clinics in the area.
- e. **Community Reaction:** The application contains 14 letters of support for the project; 5 from residents in the community, 8 from other health care providers, and the Mayor of the City of Ridgeland.

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

- a. **Medically Underserved Population:** Methodist affirmed that its outpatient clinic is accessible to all residents of the service area, and does not exclude patients because of race, age, sex, ethnicity, or ability to pay.

In addition, 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 and will continue to have access to the services of the existing clinic.

- b. **Performance in Meeting Federal Obligations:** The applicant submits that Methodist has no obligations under federal regulations requiring uncompensated care, community service, or access by minority/handicapped persons.
- c. **Unmet Needs to be Served by Applicant:** The applicant submits that all patient groups, including the medically underserved will continue to benefit.

The access to the clinic will be during a standard work week, 8:00 a.m. to 5:00 p.m., Monday through Friday, assuming closure during federal holidays. Because this is the consolidation of its three clinics in the area, patient access appears to be maintained after the consolidation into one clinic building.

#### **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**

The applicant asserts that Methodist does not have access to other outpatient clinic data to assess actual impact. Methodist asserts that since this project is a

consolidation of its three clinics in the area and it does predict a change in patient utilization, then no duplication of service or other impact is expected to other providers or the existing health care system.

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

The applicant states that this proposal continues existing services through a consolidation and does not expect to hire any additional staff and will continue providing its current services through relocation of existing staff.

**GR Criterion 11 – Health Professional Training Programs:** Methodist states it does and will continue to work with area health professional training schools, including but not limited to the University of Mississippi Medical Center, to provide clinical training.

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

- a. **Cost Estimate:** The application contains a cost estimate prepared by William S. Ware, President of Mid State Construction of Mississippi, LLC.
- 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. **New Construction Projects:** This project involves 12,300 square feet of new construction for the new clinic building.
- e. **Cost per Square Foot:** The proposed project involves approximately 12,300 square feet of new space at an estimated cost of \$357.17 per square foot.

#### **GR Criterion 16 - Quality of Care**

This application is for consolidation of three outpatient therapy clinics into one clinic building. According to the applicant, the new building will provide ideal location for outpatient therapy patients to receive services to improve their lives.

**IV. FINANCIAL FEASIBILITY**

**A. Capital Expenditure Summary**

The total estimated capital expenditure is allocated as follows:

	Item	Cost (\$)	Percent (%) of Total
a.	Construction Cost -- New	\$2,897,600	49
b.	Construction Cost -- Renovation	0	0
c.	Capital Improvements	0	0
d.	Total Fixed Equipment Cost	200,000	3
e.	Total Non-Fixed Equipment Cost	635,500	11
f.	Land Cost	611,200	10
g.	Site Preparation Cost	637,500	11
h.	Fees (Architectural, Consultant, etc.)	308,100	5
i.	Contingency Reserve	350,000	6
j.	Legal and accounting fees	10,000	1
k.	Other	223,045	4
	<b>Total Proposed Capital Expenditure</b>	<b>\$5,872,945</b>	<b>100.00</b>

The above capital expenditure is proposed for construction of an outpatient therapy clinic building. The proposed project involves approximately 12,300 square feet of new space at an estimated cost of \$357.17 per square foot. The costs for medical clinics construction projects listed in *The Means Building Construction Cost Data, 2013 Edition*, ranged from \$126 to \$197 per square foot, with a median cost of \$155 per square foot. The *Means Building Construction Cost Data* does not compare costs of therapy clinic projects.

The application contains a letter signed by the Chief Financial Officer, attesting to the financial feasibility of the project.

**B. Method of Financing**

The applicant proposes to finance the proposed capital expenditure from accumulated cash reserves.

The applicant provided financial statements documenting the ability to fund the project.

**C. Effect on Operating Cost**

The applicant's three-year projected operating statement is presented in Attachment 1.

**D. Cost to Medicaid/Medicare**

The applicant projects the cost to third party payors as follows:

<b>Payor Mix</b>	<b>Utilization Percentage (%)</b>	<b>First Year Revenue (\$)</b>
<b>Medicare</b>	25	\$117,437
<b>Medicaid</b>	7	32,442
<b>Commercial</b>	51	242,652
<b>Self Pay</b>	0	1,172
<b>Charity Care</b>	<u>1</u>	<u>3,590</u>
<b>Other</b>	<u>16</u>	<u>77,026</u>
<b>Total</b>	<b>100</b>	<b>\$ 474,319</b>

**V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES**

The Division of Medicaid was provided a copy of this application for review and comment. Effective September 1, 2012, the Division of Medicaid changed the methodology by which outpatient services are reimbursed so that the cost incurred subsequent to that date will no longer affect outpatient payments. Also, effective October 1, 2012, the Division changed the methodology by which it reimburses inpatient services so that the cost incurred subsequent to that date will only affect cost outlier payments. The Division further states that the estimated increase in cost outlier payments resulting from this CON cannot be determined at this time. The Division of Medicaid opposes the project.

**VI. CONCLUSION AND RECOMMENDATION**

This project is in substantial compliance with the criteria and standards for construction, renovation, expansion, or capital improvements involving a capital expenditure in excess of \$2,000,000 contained in the *FY 2013 Mississippi State Health Plan*; the *Mississippi Certificate of Need Review Manual, 2010 Revision*; 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 Mississippi Methodist Hospital and Rehabilitation Center, Inc. d/b/a Methodist Outpatient Rehabilitation for the construction of a consolidated outpatient therapy facility.

**Attachment 1**

Methodist Rehabilitation Center – Construction of Outpatient Therapy Facility Three-Year Operating Statement (Project Only)			
	Year 1	Year 2	Year 3
<b>Revenue</b>			
Patient Revenue:			
Inpatient	\$ -	\$ -	\$ -
Outpatient	474,319	498,035	522,937
<b>Gross Patient Revenue</b>	<b>\$ 474,319</b>	<b>\$ 498,035</b>	<b>\$ 522,937</b>
Charity Care	3,590	3,770	3,958
Deductions from Revenue	263,463	276,636	290,468
<b>Net Patient Revenue</b>	<b>\$ 207,265</b>	<b>\$ 217,629</b>	<b>\$ 228,510</b>
<b>Expenses</b>			
Operating Expenses:			
Salaries	\$ -	\$ -	\$ -
Benefits	-	-	-
Supplies			
Services	104,520	104,520	104,520
Lease	(165,252)	(166,905)	(168,574)
Depreciation	230,628	230,628	230,628
Interest			
Other			
<b>Total Expenses</b>	<b>\$ 169,896</b>	<b>\$ 168,243</b>	<b>\$ 166,574</b>
<b>Net Income (Loss)</b>	<b>\$ 37,369</b>	<b>\$ 49,385</b>	<b>\$ 61,936</b>
<b>Assumptions</b>			
Inpatient days*	NA	NA	NA
Outpatient days*	1,708	1,793	1,883
Procedures			
Charge per outpatient day	\$ 278	\$ 278	\$ 278
Charge per inpatient day	\$	\$	\$
Charge per procedure	\$	\$	\$
Cost per inpatient day	\$	\$	\$
Cost per outpatient day	\$99	\$94	\$88
Cost per procedure	\$	\$	\$