

**DIVISION OF HEALTH PLANNING  
AND RESOURCE DEVELOPMENT**

**OCTOBER 2002**

**CON REVIEW HG-RLS-0602-052  
CANTON HMA, INC.  
RELOCATION OF 22 ACUTE CARE BEDS  
CAPITAL EXPENDITURE: \$5,086,666  
LOCATION: CANTON, MISSISSIPPI**

**STAFF ANALYSIS**

**I. Project Information**

**A. Applicant Information**

Canton HMA, Inc. is a wholly owned subsidiary of Health Management Associates, Inc. a Delaware Corporation authorized to do business in Mississippi. This will be a short term, for-profit, acute care hospital located in Madison County, Canton, Mississippi. HMA, Inc. has entered into a lease agreement with Madison County Board of Supervisors to manage and operate the existing facility now know as Madison County Medical Center.

**B. Project Description**

Canton HMA proposes to relocate 22 acute care hospital beds, constituting the full complement of acute care beds associated with the Thaggard Hospital, Leake County, Mississippi to Canton, Madison County, Mississippi. The 22 beds will be housed in the existing, Madison County Medical Center. Canton HMA proposes to seek "designation of these beds as a "critical access hospital."

The proposed project will involve the renovations to the existing building. The renovations will consist of the following: close off all portions of the unused patient rooms; remove or encapsulate all V.A.T. in the usable portion; renovate surgical suites to include new finishes; replace existing biohazard shed with a lockable metal shed; and patch penetrations in existing "rated"portions and occupied portions of the hospital. Unused patient rooms which will be closed off as part of the renovation process will no longer be used by the health care facility.

The total capital expenditure of the project is \$5,086,666. The renovation will consist of 2.79 percent of the project, total fixed equipment will consist of 17.6 percent, total non-fixed equipment will consist of 74.9 percent, and the contingency reserve will consist of 4.8 percent. The breakdown of the total fixed equipment is as follows:

HVAC	\$305,000
Electrical	320,000
Plumbing	120,000
Fire Protection	<u>150,000</u>
Total	<u>\$895,000</u>

The applicant does not anticipate an increase or decrease in the use of ancillary or support services as a result of this project.

The applicant expects the total health manpower for this project to consist of 68.50 personnel.

The application contains a letter from the Division of Health Facilities Licensure and Certification approving the site for the relocation of the beds. The applicant expects to obligate the capital expenditure within 6 months of issuance of the Certificate of Need. Completion of renovations and mechanical system upgrades should be completed within 6 months of initiation of the project.

## II. TYPE OF REVIEW REQUIRED

Projects which propose the relocation/replacement of a health care facility and health services are reviewed in accordance with Section 41-7-191, subparagraphs (1) (b), and (e) 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 October 30, 2002.

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

### A. State Health Plan (SHP)

The *FY 2003 State Health Plan* contains criteria and standards which an applicant is required to meet before receiving CON authority for the replacement and/or relocation of a health care facility.

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

**Projects which do not cross the “10 bed/10 percent rule” threshold or 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.

The applicant states in order to insure access to health care in northern Madison County and the surrounding communities, Canton HMA proposes the relocation of the 22 licensed and operational acute care beds. No new acute care beds will be added to the General Hospital Service Area 3 as a result of this project.

**Note:** The proposed project assumes the relocation and replacement of the existing 67-bed hospital to Ridgewood Road in Jackson, represented by an earlier application currently pending before the Department. However, the project is independent of the replacement facility and stands alone.

In reviewing applications for relocation and replacement of existing health care facilities the Division staff has consistently applied the "Certificate of Need Criteria and Standards for Construction, Renovation, Expansion, Capital Improvements, Replacement of Health care Facilities, and Addition of Hospital Beds." Therefore, this application has been reviewed and evaluated for compliance with these criteria and standards. Since the proposed project is for a relocation of beds and will not result in any increase of acute care beds in General Hospital Service Area 3, the criteria and standards for the establishment of a new acute care hospital are not applicable to this proposal.

#### **SHP Criterion 2 - Bed Service Transfer/Reallocation/Relocation**

The applicant states that the proposed project for replacement and relocation will meet all regulatory/licensure requirements for the operation of 22 acute care hospital beds.

#### **SHP Criterion 3- Charity/Indigent Care**

Canton HMA affirms that it has provided and will continue to provide a reasonable amount of indigent/charity care.

#### **SHP Criterion 4 - Reasonable Cost**

Applicant submits that the cost per square foot for this project is \$73.24. The Applicants construction cost per square foot is in line with the 3/4 percentile of the *Means Construction Cost Data* guideline. Additionally, the applicant's cost per square foot compares favorably with similar projects.

#### **SHP Criterion 5 - Floor/Space Requirement**

The applicant states that the proposed project compares favorably with state and national norms for projects.

#### **SHP Criterion 6 - Cost of Replacement vs Renovation**

The cost to the proposed renovation does not exceed 85% of the cost of a replacement facility.

### **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. The applicable criteria are as follows:

**GR Criterion 2 - Long Range Plan**

Canton HMA, as a member of HMA's network of Mississippi acute care hospitals, endeavors to provide state-of-the-art facilities, services and equipment to the citizens of its service area. Through the implementation of this proposal, the HMA network can meet its goal of providing needed services to residents of Central Mississippi.

**GR Criterion 3 - Availability of Alternatives**

The proposed project is the result of planning and the identification of long-range goals for Canton HMA and the communities it will serve. The project as proposed is the most efficient and cost-effective method of meeting the needs of the residents of North Madison County and the surrounding area.

**GR Criterion 4 - Economic Viability**

The applicant projects a net profit of \$93,964 the first year, \$230,615 the second year, and \$283,035 the third year for the proposed project. Therefore, the project appears to be economically viable.

The applicant submitted a financial feasibility study documenting the ability to undertake this proposed project.

**GR Criterion 5 - Need for Service**

Canton HMA will not discriminate against low income persons, racial and ethnic minorities, the elderly, women, handicapped person, or any other underserved groups in the provision of health care services.

The applicant is requesting CON authority for relocation of 22 acute care beds to Canton, Mississippi, Madison County. The applicant states that the proposed relocation will have a positive effect on the ability of low income persons, racial and ethnic minorities, women and handicapped person and other underserved groups, and the elderly, to obtain needed health care.

The application contained three letters of support for the project.

**GR Criterion 6 - Accessibility**

The applicant is committed to providing services to the medically underserved populations of Madison County and the surrounding area.

**GR Criterion 7 - Information Requirement**

Canton HMA affirms that it will record and maintain records regarding charity care, care to the medically indigent, and Medicaid/Medicare populations. These items will be made available to the Mississippi State Department of Health within 15 business days of request.

**GR criterion 8 - Relationship to Existing Health Care System**

Canton HMA states the relocation of 22 acute care hospital beds to the existing physical plant will provide HMA the vehicle to provide health care services in northern Madison County in a cost-effective and reasonable manner. Canton HMA will participate actively in the HMA network of acute care services already provided in the state of Mississippi. Furthermore, Canton HMA has documented herein its health management and resources necessary to implement and maintain the offering of acute care services at the proposed 22 bed Canton facility. Canton HMA affirms the availability of those necessary resources (including medical staff, health personnel, management personnel, and funds for capital and operating needs) for the proposed project.

A letter of opposition was received from Crane Kipp, Esquire on behalf of Mississippi Baptist Health Systems, Inc.

**GR Criterion 9 - Availability of Resources**

Canton HMA has documented its health management and financial resources necessary to carry forward with this project.

The Hospital affirms that it has the availability of resources (including medical staff, health personnel, management personnel, and funds for capital and operating needs) to pursue the project.

**GR Criterion 16 - Quality of Care**

The proposed hospital will be licensed by the State Department of Health and certified for participation in the Medicare and Medicaid programs.

**IV. FINANCIAL FEASIBILITY**

**A. Capital Expenditure Summary**

Construction Cost - Renovation	\$ 142,000
Total Fixed Equipment	895,000
Total Non-Fixed Equipment	3,807,444
Contingency Reserve	<u>242,222</u>
<b>Total Proposed Capital Expenditure</b>	<b><u>\$5,086,666</u></b>

The capital expenditure is for the relocation of 22 acute care beds to Madison County, Canton, Mississippi. The proposed renovation to mechanical and electrical equipment involve the entire facility, which consists of 69,450 square feet.

**B. Method of Financing**

The applicant proposes to finance the project through Inter-Company financing. The application contained a letter from HMA Corporate Controller, verifying the financing.

**C. Effect on Operating Cost**

The applicant projects the following revenues and expenses for the first three years of operation:

<b>Expenses</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
Salaries, Wages & Benefits	\$2,280,429	\$2,439,322	\$2,562,018
Professional Fees	0	0	0
Supplies & Misc. Expenses	\$930,815	\$1,025,227	\$1,092,438
Purchased Services	0	0	0
Interest	\$157,922	\$149,899	\$141,528
Bad Debt	\$463,276	\$505,881	\$533,192
Depreciation & Amortization	\$776,908	\$784,908	\$800,908
<b>Total Expenses</b>	<b>\$4,609,350</b>	<b>\$4,905,238</b>	<b>\$5,130,084</b>
<b>Revenues</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
Gross Patient Service Rev.	\$14,463,222	\$16,534,762	\$18,125,595
<b>Less Deductions</b>			
Charity	\$578,529	\$661,390	\$725,024
Contractual Adjustments	\$9,181,379	\$10,737,519	\$11,987,453
<b>Total Deductions</b>	<b>\$9,759,908</b>	<b>\$11,398,909</b>	<b>\$12,712,476</b>
<b>Net Pat. Service Revenues</b>	<b>\$4,703,314</b>	<b>\$5,135,853</b>	<b>\$5,413,119</b>
<b>Net Income</b>	<b>\$93,964</b>	<b>\$230,615</b>	<b>\$283,035</b>

<b>General Assumptions</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
Patient Days(acute& swing bed)	5,319	5,542	5,602
Cost per Patient Day	\$867	\$885	\$916
Charge per Patient Day	\$2,719	\$2,984	\$3,235

**D. Cost to Medicare/Medicaid**

The cost of the project to third party payers is as follows:

Patient Mix	Utilization Percentage	First Year Cost
Medicaid	23.06%	\$1,062,916
Medicare	65%	\$2,996,078
Other	11.94%	\$550,356
Total	100%	\$4,609,350

**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 affected and takes no position on the project.

**VI. CONCLUSION AND RECOMMENDATION**

This project is in substantial compliance with the criteria and standards for relocation/replacement of a health care facility, as contained in the *FY 2002 State Health Plan*, the *Mississippi Certificate of Need Review Manual*, 2000 revisions, and all adopted rules, procedures, and plans of the Mississippi State Department of Health.

In reviewing applications for relocation and replacement of existing health care facilities the Division staff has consistently applied the "Certificate of Need Criteria and Standards for Construction, Renovation, Expansion, Capital Improvements, Replacement of Health care Facilities, and Addition of Hospital Beds." Therefore, this application has been reviewed and evaluated for compliance with these criteria and standards. Since the proposed project is for a relocation of beds and will not result in any increase of acute care beds in General Hospital Service Area 3, the criteria and standards for the establishment of a new acute care hospital are not applicable to this proposal.

Therefore, the Division of Health Planning and Resource Development recommends approval of the application by Canton HMA for the relocation of 22 acute care beds from Thaggard Hospital, Leake County, to Madison County, Canton, Mississippi.