

**Division of Health Planning and Resource Development
October 2002**

CON Review HG-A-0902-061

**St. Dominic/Jackson Memorial Hospital, Jackson
Construction of a 100-Bed Acute Care Hospital and
Medical Office Building in Madison County, Mississippi
Capital Expenditure: \$35,327,447**

Staff Analysis

I. Project Summary

A. Applicant Information

St. Dominic/Jackson Memorial Hospital is a 571-bed short term, not-for-profit, acute care, general referral hospital. It is licensed to operate 453 medical/surgical beds, chemical dependency beds and 83 psychiatric beds. The hospital is governed by a fifteen-member Board of Directors, six of whom are members of the Congregation of Dominican Sisters of Springfield, Illinois; the remaining nine include the Hospital President, physicians and lay persons. Members of the Board are elected by the membership of the Corporation at its annual meeting. The Hospital is accredited by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO).

Medical Staff Committees are appointed by the Chief of the Medical Staff and Hospital President and are comprised mostly of professional and include minorities and women.

St. Dominic/Jackson Memorial Hospital's occupancy rates, average lengths of stay (ALOS) and Medicaid utilization rates for the three most recent fiscal years are as follows (medical/surgical beds only):

Fiscal Year	Occupancy Rate (%)	ALOS (DAYS)	Medicaid Utilization Rate (%)
1999	56.56	6.58	8.12
2000	59.68	5.28	7.42
2001	64.91	4.94	7.26

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

B. Project Description

St. Dominic/Jackson Memorial Hospital requests Certificate of Need (CON) authority to relocate 100 licensed medical/surgical beds from the present facility on Lakeland Drive to establish a general acute care hospital in Madison County, construct a medical office building and offer magnetic resonance imaging (MRI) services on site. The hospital will be comprised of 116,212 square feet, and the medical office building will be comprised of 34,892 square feet for a total of 151,104 square feet. The cost per square foot is \$159.51. **Note:** The facility will be three stories, with the hospital on the ground floor and the medical office occupying the second and third floors. Only fifty hospital beds will be built initially with ancillary space for 100 beds. Future hospital wings with 25 beds each will be added as needed with additional square footage and cost. St. Dominic/Jackson Memorial Hospital plans to construct the facility in phases. The first phase will be a facility to accommodate 50 beds, but 25 beds will be staffed and equipped at the outset. The number of operational beds will increase with demand for them.

The proposed Madison County Hospital will serve low activity patients with the following services: surgery in four operating units; high-level imaging services; nursing care 24 hours per day, seven days per week; rehabilitation and physical therapy, pharmacy; clinical laboratories; and Level IV emergency services. MRI services will be provided through a mobile MRI service two to three days a week at the Madison County campus through a contract with a mobile service provider.

All ancillary services necessary to support the hospital will be available at the Madison County campus facility and the applicant expects 142 additional health professionals will be needed at an estimated annual cost of \$5,753,953.

The application contains a letter from the Division of Health Facilities Licensure and Certification approving the site located on property owned by St. Dominic Health Services, Inc., located in Madison County. However, two sites are being considered for this project. Acquisition of the alternate site is pending appropriate zoning and approval by the Division of Health Facilities Licensure and Certification. If this process is successful, the alternate site will be used. The applicant expects to begin construction within three to six months after final CON approval, with completion of the first phase within two years of the start date. The facility will operate under the same license as the current facility on Lakeland Drive, Jackson, Mississippi.

II. Type of Review Required

Projects which propose the relocation/replacement of a health care facility, or a portion thereof, and which offer MRI services are reviewed in accordance with Section 41-7-191, subparagraphs (1)(b), (1)(d)(xii), and (1)(e), 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 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; moreover the request must be in writing and must be accompanied by the required \$4,000 hearing fee. The opportunity to request a hearing expires on November 14, 2002.

III. Conformance with the *State Health Plan* and Other Adopted Criteria and Standards

A. State Health Plan

The FY 2003 State Health Plan contains criteria and standards which an applicant is required to meet before receiving CON authority for the relocation/replacement of a health care facility or portion thereof, and the offering of Magnetic Resonance Imaging Services (MRI).

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. This need criterion is applicable to this proposed to relocate 100 medical/surgical beds from St. Dominic Hospital's main campus to a campus in Madison County.

The projected population of Madison County for the year 2005 is 89,199. Currently, there is only one hospital in Madison County - Madison County Medical Center, which is owned by the County. The Madison County Board of Supervisors has filed a certificate of need application with the Department of Health seeking to relocate all 67 of the beds at the Madison County Madison County Medical Center to Hinds

County. In the event that application is approved, Madison County will be without any hospital beds. Assuming no existing hospital in Madison County, the bed need methodology in the *FY 2003 State Health Plan* yields a bed need of 169.48 beds in the County. St. Dominic plans to meet this projected need by relocating 100 licensed medical/surgical beds to a new facility in Madison County. However, this bed need methodology is not applicable to this application for two reasons: (1) Madison County currently has 67 hospital beds licensed and in operation in Canton, Mississippi; and (2) The St. Dominic/Jackson Memorial Hospital CON application seeks to relocate licensed acute care beds which will not increase the hospital services area bed inventory. The bed need formulas are applicable only when a proposal increases the hospital service area bed inventory.

St. Dominic/Jackson Memorial Hospital in 2001 had a market share of 22.8 percent of Madison County residents, the largest market share of any Jackson area hospitals. Also, Madison County residents account for 12.5 percent of St. Dominic/Jackson Memorial Hospital's patients. Also, excerpts from a study made in 2001 by Jennings Ryan and Kolb indicate Board adoption of a FY02-FY04 Strategic Plan which call for St. Dominic Hospital's presence in Madison County. St. Dominic/Jackson Memorial Hospital has a vision of providing high quality health care in the most cost efficient manner possible for all residents of central Mississippi and the relocation of beds to a campus in Madison County is supportive of and consistent with its long range plan. The facility will provide Level IV Trauma care. Also, this project is consistent with the goals of health planning and satisfies the need criterion applicable to bed relocations within the general hospital service area (GHSA).

SHP CRITERION 2 - Bed Service Transfer/Reallocation/Relocation

The applicant states that St. Dominic/Jackson Memorial Hospital and the proposed facility in Madison County will be operated under one license. The facility will be certified for Medicaid and Medicare reimbursement and accredited by JCAHO.

SHP CRITERION 3 - Charity/Indigent Care

Applicant states that they will continue to treat all medically indigent patients who seek or present for service at St. Dominic/Jackson Memorial Hospital Main Campus and at the Madison County campus. Furthermore, the applicant indicated that two percent of the patients served for the last three years were medically indigent patients. The dollar amount for FY 2001 for medically indigent patients was \$6,688,641. Three percent of gross patient revenues is proposed for medically indigent/charity care patients by this project.

SHP CRITERION 4 - Reasonable Cost

According to the applicant, the square footage cost for the hospital (\$159.51) falls between the median and 75 percentile unit cost as included in Means Building Construction Cost Data. Similarly, the square footage cost for the medical office building (\$125) is slightly above the 75 percentile unit cost listed for medical clinics in Means.

SHP CRITERION 5 - Floor/Space Requirement

Square footage totals for the Hospital and Medical Office Building total 116,212 square feet and 34,892 square feet, respectively. The gross square footage of the proposed project is comparable to state and national norms for similar projects. The design is in conformity with the ADA and all licensing specifications for a general acute care hospital.

SHP CRITERION 6 - MRI Services

St. Dominic/Jackson Memorial Hospital proposal to offer MRI services at the Madison County location is in full compliance with the need criterion and all other applicable criteria for the offering of MRI services. The service will be provided two or three days a week by a mobile unit which is already exceeding 1,700 procedures per year.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, revised 2000*, addresses general criteria by which all CON applications are reviewed. The applicable criteria are as follows:

GR Criterion 2 - Long Range Plan

St. Dominic/Jackson Memorial Hospital has a vision of providing high quality health care in the most cost efficient manner possible to all residents of Central Mississippi. The relocation of hospital beds to a campus in Madison County is supportive of and consistent with this long range plan.

GR Criterion 3 - Less Costly/More Effective Alternative

St. Dominic/Jackson Memorial Hospital considered and rejected the alternative of leaving Madison County void of hospital beds (in the event the Madison County Medical Center relocation to Hinds County is approved), or leaving the county with minimal services which presently is the situation. St. Dominic Hospital also considered and rejected relocating fewer than 100 beds.

GR Criterion 4 - Economic Viability

As set forth in the Financial Analysis performed by the applicant, St. Dominic/Jackson Memorial Hospital is financially sound, and the addition of the proposed Madison county campus will not have adverse impact on the overall financial status of the Hospital. Moreover, St. Dominic/Jackson Memorial Hospital has determined that the Madison County campus itself will be economically viable. The charges proposed will be consistent with charges at St. Dominic Hospital's main campus and will be in conformity with similar facilities in General Hospital Service Area 3. Since the applicant projects net profits exceeding \$9,000,000 for each year for a period of three years in combined projected operating statements, the project is economically viable.

GR Criterion 5 - Need

The projected population of Madison County for the year 2005 is 89,199. Currently, there is only one hospital in Madison County - Madison County Medical Center, which is owned by the county. In the event that the CON application filed by the Madison County Board of Supervisors to relocate all 67 of the beds at Madison County Medical Center to Hinds County is approved, Madison county will be without any hospital beds. If there are no hospital beds in Madison County, the county would show a bed need of 169.48 beds. St. Dominic/Jackson Memorial plans to meet this projected need by relocating 100 licensed medical/surgical beds from its Main Campus in Jackson to a new facility in Madison County. St. Dominic/Jackson Memorial Hospital's long range plan calls for its presence in Madison County to provide high quality health care in the most cost efficient manner possible, as services are currently minimal. St. Dominic/Jackson Memorial Hospital in 2001 had a market share of 22.8 percent of Madison County residents, the largest market share of any Jackson area hospitals, and Madison County residents accounted for 12.5 percent of St. Dominic Hospital's patient population during the same period. St. Dominic Hospital relocation of beds to Madison County will result in faster diagnosis, more efficient scheduling, more rapid treatment and care and a reduction in costs and travel for Madison County patients.

GR Criterion 6 - Accessibility

St. Dominic Hospital's Madison County campus will serve the Madison County community by providing healthcare to all residents, regardless of the ability to pay. The Madison Campus will be a Medicaid and Medicare provider and projects three percent of gross revenues for medically indigent/charity care. In addition, the Madison Campus will be conveniently located near I-55 North and will easily accessible to all Madison County residents and the surrounding area.

GR Criterion 7 - Information Requirement

St. Dominic Hospital affirms that its Madison County campus will comply requirements regarding the recording, reporting and maintaining of utilization data, patient origin data, charge information and any other data pertaining to the utilization of services by medically indigent, Medicaid, or charity patients which may be requested by the Department of Health.

GR Criterion 8 - Relationship to Existing Health Care System

St. Dominic Hospital will continue to cooperate fully with other healthcare providers in central Mississippi and does not expect the proposed project to have any adverse impact on providers in Madison County or GHSA 3. The application contained ten letters of support and two letters of opposition.

GR Criterion 9 - Availability of Resources

St. Dominic Hospital plans to hire health personnel and management personnel for the Madison County campus from the Central Mississippi region.

GR Criterion 16 - Quality of Care

St. Dominic Hospital has a history of providing excellent care to the residents of Mississippi, and this commitment of excellence will extend to the Madison County campus. St. Dominic Hospital is in compliance with the Minimum Standards of Operation for Mississippi Hospitals and is JCAHO accredited.

IV. FINANCIAL FEASIBILITY

A Capital Expenditure Summary

Construction - New	\$ 21,957,175
Fixed Equipment	5,609,275
Non-Fixed Equipment	2,493,275
Site Preparation	998,325
Fees	1,020,108
Contingency Reserve	1,147,750
Capitalized Interest	<u>2,101,539</u>
Total	<u>\$ 38,327,447</u>

According to the applicant the square footage cost for the hospital (\$159.51) falls between the median and high range as included in Means Building Construction Cost Data, 2002. Similarly, the square footage cost for the Medical Office Building (\$125) is slightly above the high range as listed in Means for medical clinics.

B. Method of Financing

The applicant proposes to finance the project through a loan from Trustmark National Bank of Jackson, Mississippi in the amount of \$33,225,908 and operating reserves in the amount of \$2,101,539.

C. Effect on Operating Cost

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

	<u>FIRST YEAR</u>	<u>SECOND YEAR</u>	<u>THIRD YEAR</u>
Salaries	\$ 81,101,283	\$ 84,392,888	\$ 87,818,535
Benefits	16,958,115	17,806,021	18,696,321
Professional Fees	3,067,179	3,159,194	3,253,970
Dietary	2,274,709	2,342,950	2,413,238
Repairs and Maintenance	5,377,734	5,539,066	5,705,238
Utilities	3,904,507	4,021,642	4,142,292
Medical Supplies	53,272,084	56,922,508	60,826,104
Other Expenses	16,238,450	17,266,813	18,369,770
Indirect Expenses	20,000	20,600	21,218
Interest	1,961,109	1,802,155	1,633,814
Depreciation	15,514,271	16,613,004	17,799,637
TOTAL EXPENSES	\$199,689,441	\$209,886,841	\$220,680,137
Gross Revenue	\$403,117,499	\$441,940,092	\$484,601,242
Deductions	(193,600,319)	(222,569,278)	(254,417,366)
NET REVENUE	\$209,517,180	\$219,370,814	\$230,183,876
NET INCOME	\$ 9,827,739	\$ 9,483,973	\$ 9,503,739
Patient Days	131,765	134,400	137,088
Occupancy Rate	65%	65%	65%
Cost/Patient Day	\$1,515	\$1,562	\$1,610
Charge/Patient Day	\$3,059	\$3,288	\$3,535

*** Includes Main Campus in Jackson and proposed Madison County campus.**

D. Cost to Medicaid/Medicare

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

Patient Mix	Utilization %	First Year Cost
Medicaid	7.70	\$ 1,063,133
Medicare	64.40	8,347,564
Other Payors	27.90	3,714,404
TOTAL	100.00	\$13,125,101

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for comment. The increased annual cost to Medicaid will be \$505,312 for inpatient hospital services. Any costs related to the medical office building should not be included in future cost reports.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the criteria and standards for the relocation/replacement of a health care facility or a position thereof and criteria and standards for offering MRI services, as contained in the *FY 2003 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.

Therefore, the Division of Health Planning and Resource Development recommends approval of the application submitted by St. Dominic/Jackson Memorial Hospital for the relocation of 100 medical/surgical beds from its main campus to a campus in Madison County, construction of a medical office building and the provision of MRI services on the Madison County campus.