

**DIVISION OF HEALTH PLANNING
AND RESOURCE DEVELOPMENT
AUGUST 2014**

**CON REVIEW HR-RC-0514-006
THE MISSISSIPPI METHODIST HOSPITAL AND REHABILITATION CENTER, INC.
D/B/A METHODIST REHABILITATION CENTER
RENOVATION OF 3RD FLOOR, PATIENT AND NURSING AREA
LOCATION: JACKSON, HINDS COUNTY, MISSISSIPPI
CAPITAL EXPENDITURE: \$5,013,286**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

The Mississippi Methodist Hospital and Rehabilitation Center, Inc. d/b/a Methodist Rehabilitation Center (MRC) is a not-for-profit corporation, rehabilitation hospital in Jackson, Mississippi (MS). The 144-bed facility (hospital) is a Level I Comprehensive Medical Rehabilitation Facility (CMR) governed by twenty-one officers and directors, 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. The applicant included a Certificate in the application from the Secretary of State's Office dated May 21, 2013. It certifies that Methodist Rehabilitation Center is a corporation and is in good standing with the State of Mississippi.

B. Project Description

Methodist Rehabilitation Center requests Certificate of Need (CON) authority to renovate 21,603 square feet of its third floor patient and nursing area. The process will involve renovating 25 Methodist inpatient rehabilitation (rehab) rooms as well as painting, new flooring, ceiling, HVAC systems, plumbing, and remodeling the nursing station and replacing non-fixed furniture.

The applicant asserts that the third floor of the facility is outdated and is need of repair and modernizing. If the proposed project is approved, MRC states that the renovation will continue to allow the facility to provide rehab services in a modernized area. Other specific information on the design and renovation of the third floor is included in the application.

Although Methodist Rehabilitation Center's proposed changes relate to the project referenced above, the applicant asserts that no new services will be established or offered as part of the project.

Methodist Rehabilitation Center proposes to fund the project with cash reserves. The application includes a capital expenditure summary, audited financial statements, and a financial feasibility statement from its CPA asserting that Methodist Rehabilitation Center has sufficient capital to fund the project.

The applicant provided a schematic drawing of the renovations. Also, MRC submitted a revised document to verify that 21,603 square feet of space instead of 20,768 square feet of space would cost \$160.88 per square foot to renovate. The applicant states that 149 FTEs (Full-Time Equivalents) or personnel will increase to 156 FTEs and will be required for the proposed project. The annual cost of personnel will be \$289,910.00.

Methodist Rehabilitation Center received site approval from the Mississippi State Department of Health, Division of Health Facilities Licensure and Certification. Methodist Rehabilitation Center contends that the capital expenditure for the proposed project will be obligated by 30 days of CON approval and the anticipated date the project will be complete will be 12 months from the project start date.

II. TYPE OF REVIEW REQUIRED

The Mississippi State Department of Health reviews applications for construction, renovation, expansion, or capital expenditure in accordance with Section 41-7-191, subparagraph (1) (j) Mississippi Code 1972 Annotated, as amended, and duly adopted rules, procedures, plans, criteria, and standards of the Mississippi 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 September 10, 2014.

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

A. State Health Plan (SHP)

The *FY 2014 Mississippi State Health Plan (MSHP)* contains criteria and standards which the applicant is required to meet before receiving CON authority for construction, renovation, and the acquisition of major medical equipment. This application is in compliance with applicable criteria and standards.

Construction, Renovation, Expansion, Capital Improvements, Replacement of Health Care Facilities, and Addition of Hospital Beds

SHP Criterion 1- Need

Methodist Rehabilitation Center states that the proposed renovation was planned prior to 2013 and evaluated its long-range plan. The applicant believes the existing space on the third floor must be modernized to meet the current/future healthcare needs of patients who suffer from complex orthopaedic and neurological injuries.

Although Methodist Rehabilitation Center did not cite any deficiencies by the Mississippi State Department of Health, Division of Health Facilities, Licensure and Certification, the applicant stresses that the hospital is in need of an upgrade to renovate/reconfigure the patient area. Since patients will have a length of stay over 16 days, the updates will better serve MRC's patients with complex injuries and will accommodate each patient's family during the rehab process.

To provide operational efficiency and practical uses, MRC asserts that other renovations will consist of the HVAC and nurses call systems.

Since the facility currently provides patients with rehab services and is a Level CMR facility, the applicant states that Methodist Rehabilitation Center does not participate in the statewide trauma system.

The applicant states the Methodist Rehabilitation Center is not adding additional beds or other services; however, the hospital is only proposing to renovate the facility. Thus, this project will not have an adverse impact on existing CMR facilities in the State of MS.

SHP Criterion 2 - Bed Service Transfer/Reallocation/Relocation

The applicant asserts that this project does not involve transfer/reallocation/relocation of beds to another facility within Hinds County or the State of Mississippi; thus, this criterion is not applicable to the proposed project.

SHP Criterion 3 - Charity/Indigent Care

The rehab facility has served patients who cannot financially meet their obligation to pay for services rendered; thus, the hospital affirms that it will continue to provide a "reasonable amount" of indigent/charity care as described in Chapter I of the *FY 2014 MSHP*.

SHP Criterion 4 - Cost of Proposed Project

Staff determined that the *2013 Means Construction Cost Data* publication lists the following cost ranges per square foot associated with hospital construction: low-\$196; median-\$246; and high-\$335. Using the *Means Construction Cost Data book*

for 2013, it does not compare costs for renovation projects; however, the applicant states that the cost to renovate 21,603 square feet of space in the existing hospital will be \$160.88 per square foot. Based on the formulas listed in the *FY2014 MSHP*, staff determined the renovation costs per square foot and it is captured in Attachment 2 of this document.

The applicant asserts that there are fixed and non-fixed equipment costs associated with this project. The fixed and non-fixed equipment costs will be of \$756,700 and \$732,228, respectively. Methodist Rehabilitation Center did not indicate that the facility is aware of other CON applications, which are similar to the proposed project to determine the median renovation costs. The applicant also states that Methodist Rehabilitation Center cannot determine if the equipment costs in the proposed project exceed the median equipment cost for equipment of similar quality by more than 15%.

SHP Criterion 5 - Floor and Area Specifications

Methodist Rehabilitation Center proposes to renovate 21,603 square feet of space. The applicant states that Methodist Rehabilitation Center is not aware of other CON applications, which are similar to the proposed project nor does the proposed project compare to other projects with renovation costs. The applicant does not state that the existing facility has architectural design restraints that will not allow the applicant to add additional space to the facility; however, MRC affirms that the third floor can be reconfigured or modernized. Also, Methodist Rehabilitation Center does not list any "special considerations due to local conditions" except for the fact that MRC is the only facility in the state primarily dedicated to complex rehab services. The applicant affirms that the proposed project seeks to provide an enhanced area that will be efficient for treatment.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, 2011 revision*, 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

Methodist Rehabilitation Center affirms that the proposed project is consistent with the applicant's long-range plans of providing quality CMR services to its patients. The renovation will also allow patients and their families to experience an atmosphere that has been enhanced to meet their needs during the rehab process.

GR Criterion 3- Availability of Alternatives

The applicant states what options were discussed concerning renovating the facility.

Initially, Methodist Rehabilitation Center discussed not doing anything at all except continue using the outdated space; however, MRC decided that the option would not be in line with the facility's goal of providing specialized rehab services to its patients in the State of MS.

No new construction is associated with the proposed project; however, MRC stated the best alternative would be to utilize the existing space by renovating the third floor to improve the care for its patients.

GR Criterion 4 - Economic Viability

The applicant provided a three-year projected operating statement. The total operating revenue over a projected three-year period, any income increases or decreases or net losses are shown in Attachment 1 of this document.

Based on the applicant, projected charges and projected utilization for the proposed project are based on current charges and utilization. The applicant asserts that there will not be a change in charges or utilization as a result of the proposed project. It appears that Methodist Rehabilitation Center did not analyze and compare these items to other facilities and only compared each category to its historical data. It appears that MRC considered all of the categories listed as reasonable.

The applicant indicates that its projected categories are based on historical information. The applicant provided audited financial statements to verify that Methodist Rehabilitation Center has the financial strength to support the proposed project in case the project fails. Also, the facility asserts that MRC's financial forecasts do not deviate significantly from those of the three-year historical period.

The proposed project has a capital expenditure that exceeds \$2,000,000; however, Methodist Rehabilitation Center provided audited consolidated financial statements for Year Ending June 30, 2011 and June 30, 2012. The applicant asserts that MRC's proposed project will not have an impact on the cost of healthcare or Medicaid. Methodist Rehabilitation Center affirms the facility will cover expenses, meet projected costs, revenues, and expenses because these items and utilization are based on current patients, actual, current utilization.

Attachment I show losses for the projected three years; however, the table only captures the inpatient rehab portion of The Mississippi Methodist Hospital and Rehabilitation Center, Inc. and doesn't include other department/centers/clinics under MHRC, Inc. The application includes Table 5B - Income Statement (Project Only) and shows that the proposed project will reflect a net income of \$114,324, 147,421, and \$182,348 for Year 1, Year 2, and Year 3, respectively. The applicant asserts that the proposed project will be feasible. Based on the financial documents, the proposed project appears to be economically viable.

GR Criterion 5 - Need for the Project

The applicant affirms that the population in Jackson, Hinds County, Mississippi and the State of MS (including low income persons, racial and ethnic minorities, women, handicapped persons and other underserved groups, and the elderly) will have access to the proposed modernization of 21,603 square feet of hospital space regarding the third floor. The need for the project is discussed under *SHP Criterion 1- Need*.

The applicant asserts that this project does not involve the relocation of a health care facility or service and is not proposing to add any additional facilities or services to Hinds County or in the State of MS.

The application includes several letters of support for the proposed project. The Department received no letters of opposition concerning the proposed project.

GR Criterion 6 –Accessibility

Methodist Rehabilitation Center affirms that the proposed facility will be in compliance with federal and state regulations relating to serving all patients in Hinds County and the State of MS regardless of race, creed, sex, or ability to pay.

For year 1 and 2, the applicant projects that the medically indigent and charity care patients that will be served at Methodist Rehabilitation Center will be, 2.0% for each year. The projected gross patient revenues for charity care will be \$824,039 and \$832,279, respectively. The hospital's bad debt is expected to be the same as the facility's historical percentage.

The applicant indicates that the expected payor mix by type payor will be as follows: Medicaid, 10%, Medicare, 50%, Commercial, 37%, Self Pay, 2%, Charity Care, 2%; and other, 0%.

Methodist Rehabilitation Center states that all patients will continue to have access to its hospital services and if the proposed renovation project is approved, all people in Hinds County and the State of MS will also have access to the renovated facility. The application includes Methodist Rehabilitation Center's admission policy and it indicates that the Jackson facility is accessible to MS residents, 24 hours per day.

GR Criterion 7- Information Requirement

The applicant affirms that Methodist Rehabilitation Center will record and maintain the information required by this criterion and shall make the data available to the Mississippi Department of Health within fifteen (15) business days of request.

GR Criterion 8 - Relationship to Existing Health Care System

Since the proposed project only involves renovation and does not involve offering

new health care services, the applicant believes that the proposed project will not have an adverse impact on existing facilities in Hinds County or the State of MS. The renovated facility will be open to all patients.

If the proposed project is not approved, Methodist Rehabilitation Center states that the facility will have to continue to provide rehab services in a dated area.

Methodist Rehabilitation Center asserts that there are no transfer/referral or affiliation agreements associated with this renovation/upgrade project.

Because no new services will be offered as a result of this project, staff concludes that this project would not have an adverse affect on other providers in the referenced service area.

GR Criterion 9 - Availability of Resources

The applicant contends that 7.0 additional FTEs (personnel) will be needed for the proposed area. Methodist Rehabilitation Center states that the hospital will continue to recruit staff through traditional or normal resource methods. Historically, Methodist Rehabilitation Center has always had sufficient staffing for its hospital, other facilities, and outpatient health services. The need for any personnel will continue to be met by Methodist Rehabilitation Center. The applicant asserts that because the proposed project does not relate to providing new health care services, only three registered nurses, three aides and one management staff will be required for the proposed renovation project.

GR Criterion 10 - Relationship to Ancillary or Support Services

The applicant asserts that Methodist Rehabilitation Center has necessary support and ancillary services. Thus, the proposed renovation project is not expected to have an adverse effect upon the delivery of ancillary health services nor change the cost and charges of those services.

GR Criterion 11- Health Professional Training Programs

The applicant asserts that Methodist Rehabilitation Center works with area health training schools, including University of MS Medical Center has school and training programs. The applicant states that the renovation project will not have an effect upon the health professional training programs in Hinds County and in the State of MS.

GR Criterion 12- Access by Health Professional Schools

Regarding access by health professional schools, the applicant lists the same information for Criterion 12 as Criterion 11 and asserts that the proposed project will have no effect on the school agreements.

GR Criterion 13- Provision of Service in Service Areas

As stated previously, Methodist Rehabilitation Center affirms that all patients will continue to have access to its rehab services in Hinds County as well as the facility service area, the State of MS. The applicant did not list any special needs or circumstances that should be considered relating to this criterion.

GR Criterion 14 - Construction Projects

Methodist Rehabilitation Center took appropriate action to apply for a CON in the amount of \$5,013,286. The architect and designers hired by the hospital submitted a cost estimate to show a proposed capital expenditure of \$5,013,286. The application includes a site approval letter from the Division of Health Facilities Licensure and Certification. The applicant includes a schematic drawing to show how the hospital will look after the renovation is completed.

In addition, the applicant states that the project complies with state and local building codes, zoning ordinances, and all appropriate regulatory authorities. The applicant has provided written assurance that Methodist Rehabilitation Center will comply with state statutes and regulations for the protection of the environment.

Since hospital officials opted to modernize the existing hospital, a formula calculation was used by the hospital to show how much the proposed project will cost per square foot. As a cost guide, the *Building Construction Cost Data for FY 2013* lists construction costs from low to high range per square foot. For hospitals of this size, the construction costs are \$196, \$246, and \$335 per square foot.

The *Means Construction Cost Data for 2013* does not compare costs for renovation projects; however, the renovation formula in the *Plan* was used by Methodist Rehabilitation Center to show how much the proposed project will cost per square foot. The applicant states that the cost to renovate 21,603 square feet of the existing building will be \$160.88 per square foot; however, staff calculates \$196.46 as the cost per square foot. The construction cost of \$160.88 per square foot is closer to the low range.

Based on the specifics presented in the application and the construction/ renovation formula listed in the *FY 2014 MSHP*, costs per square foot are shown in Attachment 2 of this analysis.

GR Criterion 16 – Competing Applications

Since there are no competing applications, no additional information is required to adhere to this criterion.

GR Criterion 16 - Quality of Care

For years, the applicant states that Methodist Rehabilitation Center has a history of providing high quality Level I CMR services to residents of Mississippi. The facility has an established healthcare service dedicated to deliver quality rehab care to address traumatic injuries and severely disabled patients. Methodist Rehabilitation Center states it holds no accreditations or certifications; however is certified to participate in the Medicare and Medicaid programs. Also, the facility is licensed by the Mississippi State Department of Health, Division of Licensure and Certification.

By renovating the third floor of the existing facility, the applicant believes this will improve/enhance the delivery of health care/rehab services.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

Cost Item	Estimated Cost	% of the Total
Construction Cost -New	0	0.00%
Construction Cost-Renovation	3,050,000	60.84%
Capital Improvements, i.e. (minor painting and repairs, refurbishing)	0	0.00%
Total Fixed Equipment Cost	756,700	15.09%
Total Non-Fixed Equipment Cost	732,228	14.61%
Land Cost	0	0.00%
Site Preparation Cost	0	0.00%
Fees (Architectural and Consultant Fees)	175,500	3.50%
Fees (Legal and Accounting)	12,000	0.24%
Contingency Reserve	200,000	3.99%
Capitalized Interest	50,000	1.00%
Other Cost (Misc CON Expenses)	36,858	0.74%
Other Cost	0	0.00%
TOTAL PROPOSED CAPITAL EXPENDITURE	\$ 5,013,286	100%

B. Method of Financing

As previously mentioned, Methodist Rehabilitation Center proposes to finance the project with cash reserves. The application contained a financial feasibility statement from the hospital's CPA stating that Methodist Rehabilitation Center has sufficient capital to fund the project.

C. Effects on Operating Costs

The applicant's projections of gross revenues for the first, second, and third year of operation, expenses, and net income are shown in Attachment 1. Utilization, cost, and charges are also included in the applicant's Three-Year Projected Operating Statement (See Attachment 1).

To explain the net income loss for each projected year in Attachment 1, the applicant affirms that the three-year operating table doesn't reflect the financials for all the departments/services under the umbrella of The Mississippi Methodist Hospital and Rehabilitation Center, Inc. Attachment I only captures the inpatient rehab portion of The Mississippi Methodist Hospital and Rehabilitation Center, Inc. and doesn't include The Specialty Care Center, Orthotics, and Prosthetics, Outpatient Rehab, Pain Management, and Spine and Joint.

Methodist Rehabilitation Center points out that the results in Attachment 1 (Table 5C – Income Statement With Project in the application) is directly related to the overall operations of the facility shown in Table 5A – Income Statement Without Project. Although MRC indicates that facility without the proposed project is expected to lose money, the applicant asserts that the proposed project will improve the income at the inpatient rehab facility, MRC.

The application includes Table 5B - Income Statement (Project Only) and shows that the proposed project will reflect a net income of \$114,324, 147,421, and \$182,348 for Years 1, 2, and 3, respectively. The applicant asserts that the proposed project will be feasible.

D. Cost to Medicaid/Medicare

In the application, Methodist Rehabilitation Center provides the following revenue source projections for each payor category listed below:

Methodist Rehabilitation Center			
Payor	Utilization Percentage	First Year Revenue	<i>First Year Revenue (MRC)*</i>
Medicaid	10.00%	\$4,326,205.20	<i>\$4,456,106.00</i>
Medicare	50.00%	\$21,631,026.00	<i>\$21,807,393.00</i>
Self Pay	0.00%	\$0.00	<i>\$72,270.00</i>
Commercial	37.00%	\$16,006,959.24	<i>\$16,061,042.00</i>
Charity	2.00%	\$865,241.04	<i>\$865,241.00</i>
Other	0.00%	\$0.00	<i>\$0.00</i>
Total	100%	<u>\$43,262,052.00</u>	<u>\$43,262,052.00</u>

NOTE: MRC's First Year Revenue numbers by category and MSDH's numbers by category are not exactly the same. MRC indicates that the facility's figures may be off by a small percentage due to rounding.

V. RECOMMENDATION OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided an opportunity to review and comment on this project. Based on their analysis, the Division states that effective September 1, 2012, the Division changed the methodology by which it reimburse outpatient services so that the cost incurred, subsequent to that date will no longer affect outpatients payments.

Effective October 1, 2012, the Division changed then the methodology by which it reimburse inpatient services so that the cost incurred subsequent to that date will only affect cost outlier payments. The estimated increase in cost outlier payments resulting from this project cannot be determined at this time. The Division of Medicaid opposes this project.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the overall objectives of the *FY 2014 Mississippi State Health Plan*; Chapter 8 of the *Mississippi Certificate of Need Review Manual, Revised 2011*; and all adopted rules, procedures, and plans of the Mississippi Department of Health.

The Division of Health Planning and Resource Development recommends approval of the application submitted by The Mississippi Methodist Hospital and Rehabilitation Center, Inc. d/b/a Methodist Rehabilitation Center (MRC) to renovate 21,603 square feet of space, the patient and nursing area, located on the third floor of the facility.

ATTACHMENT 1

Methodist Rehabilitation Center-Jackson Memorial Hospital Renovation of 3rd Floor, Patient and Nursing Area Three-Year Operating Statement (With Project)

	Proposed Year 1	Proposed Year 2	Proposed Year 3
Revenue			
Inpatient Care Revenue	\$ 43,262,052	\$ 43,777,077	\$ 44,301,371
Outpatient Care Revenue	-	-	-
Gross Patient Care Revenue	\$ 43,262,052	\$ 43,777,077	\$ 44,301,371
Charity Care	865,241	875,541	886,027
Deductions from Revenue	19,654,019	19,887,996	20,126,184
Net Patient Care Revenue	\$ 22,742,792	\$ 23,013,539	\$ 23,289,160
Other Operating Revenue	-	-	-
Total Operating Revenue	\$ 22,742,792	\$ 23,013,539	\$ 23,289,160
Operating Expense			
Salaries	\$ 12,529,996	\$ 12,657,753	\$ 12,786,837
Benefits	2,255,399	2,278,396	2,301,631
Supplies	2,321,281	2,348,919	2,377,054
Services	1,245,367	1,260,137	1,275,170
Lease	-	-	-
Depreciation	1,915,294	1,930,711	1,946,281
Interest	8,886	8,975	9,065
Other	2,879,400	2,913,656	2,948,527
Total Operating Expense *	\$ 23,155,624	\$ 23,398,545	\$ 23,644,565
Net Operating Income (Loss) *	\$ (412,832)	\$ (385,006)	\$ (355,404)
	Proposed Year 1	Proposed Year 2	Proposed Year 3
Inpatient days	18,149	18,365	18,585
Outpatient visits	0	0	0
Procedures	0	0	0
Charge per outpatient day	\$ -	\$ -	-
Charge per inpatient day	\$ 2,384	\$ 2,384	\$ 2,384
Charge per procedure	\$ -	\$ -	-
Cost per inpatient day	\$ 1,276	\$ 1,274	\$ 1,272
Cost per outpatient day	\$ -	\$ -	-
Cost per procedure	\$ -	\$ -	-

* Projected losses relating to the proposed project are explained above, under C. *Effects on Operating Costs.*

ATTACHMENT 2

**Methodist Rehabilitation Center-Jackson Memorial Hospital
 Renovation of 3rd Floor, Patient and Nursing Area**

Computation of Construction and Renovation Cost

		<u>Total</u>	<u>New Constructon</u>	<u>Renovation</u>
	<u>Cost Component</u>			
A	New Construction Cost	\$0	\$0	
B	Renovation Cost	\$3,050,000		\$3,050,000
C	Total Fixed Equipment Cost	\$756,700	\$0	\$756,700
	Total Non-Fixed Equipment Cost	\$732,228	\$0	
	Other (Misc CON Expenses)	\$36,858		
H	Capital Improvement	\$0		\$0
	Land Cost	\$0	\$0	
D	Site Preparation Cost	\$0	\$0	
E	<i>Fees (Architectural, Consultant, etc.)</i>	\$187,500	\$0	\$187,500
F	<i>Contingency Reserve</i>	\$200,000	\$0	\$200,000
G	<i>Capitalized Interest</i>	\$50,000	\$0	\$50,000
	Total Proposed Capital Expenditure	\$5,013,286	\$0	\$4,244,200
	Square Footage	21,603	0	21,603
	<i>Allocation Percent</i>		0.00%	100.00%
	Costs Less Land, Non-Fixed Eqt.& Cap. Improvement	\$4,281,058	\$0	\$4,244,200
	Cost Per Square Foot	\$198.17	\$0.00	\$196.46

Source: Mississippi Certificate of Need Review Manual, Revised 2011 and FY 2014 MSHP.