

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
FEBRUARY 2015**

**CON REVIEW HG-R-1214-019
NATCHEZ HOSPITAL COMPANY, LLC D/B/A NATCHEZ
REGIONAL MEDICAL CENTER
RENOVATION AND IMPROVEMENT OF THE FOURTH FLOOR,
EMERGENCY DEPARTMENT, LABOR & DELIVERY
ROOMS AND POST-PARTUM ROOMS
CAPITAL EXPENDITURE: \$12,411,697
LOCATION: NATCHEZ, ADAM COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Natchez Hospital Company, LLC d/b/a Natchez Regional Medical Center (NRMC). Natchez Regional Medical Center is a 179-bed short term, public, not-for-profit hospital. It is licensed to operate 159 medical/surgical beds, and 20 rehabilitation beds. Natchez Regional Medical Center is owned by Natchez hospital Company, LLC a limited liability company. Natchez Hospital Company, LLC registered with Secretary of State of Mississippi on May 7, 2014. The hospital is accredited by the Joint Commission on the Accreditation of Healthcare Organizations and licensed by the Mississippi State Department of Health (MSDH).

According to the applicant, the sole member of Natchez Hospital Company, LLC is Mississippi HMA Holdings II, LLC. Mississippi HMA Holdings II, LLC is governed by an 11-member Board of Trustees and six-member Officer and Directors. Mississippi HMA Holdings II, LLC is owned by Health Management Associates, LP and HMA Hospitals Holdings, LP are owned by Health Management General Partner, LLC and Health Management Associates, Inc. The owner of Health Management Associates, Inc. is CHS/Community Health Systems, Inc. The application contains a chart demonstrating the ownership structure outlined above.

The applicant asserts that effective October 1, 2014, Natchez Hospital Company, LLC purchased substantially all the assets used in connection with operation of the hospital. The applicant's strategy in purchasing the hospital involves consolidating NRMC with its sister facility, Natchez Community Hospital, LLC on or before April 1, 2015. The applicant asserts that the future consolidation will offer health care access without duplication in a single primary location which will benefit both providers of the health care services and the patient population.

Although Natchez Hospital Company, LLC d/b/a Natchez Regional Medical Center addresses its future consolidation/merger plan of NRMC and Natchez Community Hospital, Inc. in this Certificate of Need application, the applicant submits that the consolidation/merger plan is not a part of this CON application. However, the applicant asserts that it will file a separate Certificate of Need application concerning the consolidation/merger plan.

The occupancy rates, average lengths of stay (ALOS), and the Medicaid utilization rates for NRMC are as follows:

**Natchez Regional Medical Center
 Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2011	22.61	4.62	19.81
2012	21.89	4.65	20.12
2013	20.92	3.83	20.53

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

B. Project Description

Natchez Hospital Company, LLC d/b/a Natchez Regional Medical Center requests Certificate of Need (CON) authority for renovation and improvements to the fourth floor, emergency department, labor and delivery rooms, and post-partum rooms at NRMC. The applicant indicates that this space is currently used for patient rooms, emergency department exam rooms and support areas, labor and delivery and post-partum rooms. The scope of the proposed project involves the renovation of three floors (first, third and fourth floors) of the existing hospital. According to the applicant, the project involves renovating a total of 33,931 square feet of renovation space. A breakdown of the project’s renovation of floors/departments by square feet is as follows:

First Floor = 11,879 square feet

Natchez Regional Medical Center asserts that the existing emergency department is on the first floor and contains the following key planning units: 13 exam rooms and 1 triage room. The project will renovate the entire department and additional adjacent space. The renovation will relocate minor support functions to the adjacent space and create the following key planning units: 18 exam rooms (10 existing, 8 new) and 1 triage room (relocated).

Third Floor = 8,180 square feet

The existing women's services unit is located on the third floor and contains the following key planning units: 3 anti-partum exam rooms, 3 labor/delivery/recovery (LDR) rooms, 3 C-section rooms and 18 post partum rooms. The applicant asserts that the proposed renovation will upgrade the finishes in the post partum wing, create a new waiting room, relocate one (1) of the anti-partum room, renovate ten existing post partum rooms, and convert two C-section rooms that are currently unused into two additional LDR rooms. Note that this unit is located directly above the surgery suite and can accommodate emergency C-sections if the C-section room in this unit is in use. The patient rooms on the north side of the unit are small and the restrooms do not contain showers. However, the proposed renovation of the north side will create new larger rooms with full patient restrooms containing showers. The project will create the following key planning units: 3 ante-partum exam rooms (2 existing and 1 relocated) and 5 labor/delivery/recovery (LDR) rooms (3 existing and 2 new), 1 C-section room existing to remain, and 14 post partum rooms (8 existing, and 6 new).

Fourth Floor = 13,872 square feet

Natchez Regional Medical Center asserts that an existing medical/surgical patient unit is located on the fourth floor and contains the following key planning units: 34 medical/surgical patient rooms. The applicant indicated that the patient rooms on the north side of the unit are small and the restrooms do not contain showers. The proposed renovation of the north side will create new larger rooms with full patient restrooms containing showers. The project's scope will also include mechanical, plumbing and electrical work throughout the floor. The project proposes to renovate the fourth floor to create a unit with 28 medical/surgical patient rooms (18 existing and 20 new). No new services or additional beds will be offered as a result of this project.

The applicant's final objectives for the proposed project are to renovate space on the first, third, and fourth floors of NRMC's main campus to better accommodate the increased patient flow and to offer more spacious patient care areas. The following areas: emergency department, examination rooms; labor and delivery rooms and post-partum rooms will be modern, efficient and functional areas. The applicant believes that the project will promote quality and continuity of care and offer state-of-the-art facilities and services to its patients. After the consolidation/merger plan is implemented, the applicant states patients will depend on the hospital as the only acute care facility in the city of Natchez and in Adams County.

According to the applicant, 278 FTE (full-time equivalent employees) will be added at an annual additional cost of \$13,373,289 as a result of the proposed project.

The total proposed capital expenditure is \$12,411,697, at an estimated cost of \$226.75 per square foot for renovated space. (See Expenditure Summary for complete percentage breakdown of project). The applicant indicates the proposed capital expenditure will be obligated as soon as possible after CON approval and the proposed project will be completed within 12 months of the capital expenditure obligation.

The applicant indicates that the proposed capital expenditure will be funded from hospital cash reserves. The application contained a signed letter from the hospital's senior vice president of finance and treasurer, attesting to the financial feasibility of the project

The MSDH Division of Health Facilities Licensure and Certification approved the site for the project on November 26, 2014.

II. TYPE OF REVIEW REQUIRED

This project is reviewed in accordance with Section 41-7-173, and 41-7-191 1(j) 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 March 12, 2015.

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

A. State Health Plan (SHP)

The *FY2015 State Health Plan* contains criteria and standards which the applicant is required to meet before receiving CON authority for construction, renovation, and expansion. This application is in substantial compliance with the applicable criteria and standards stated in the *Plan* as follows:

SHP Criterion 1 - Need

Projects which do not involve the addition of acute care beds.

In projects that do not involve the addition of acute care beds, the applicant shall document the need for the proposed project. In addition, projects that involve construction, renovation, or expansion of emergency department facilities 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 documents that Natchez Regional Medical Center participates in the statewide trauma system as a Level IV facility.

The applicant asserts that the project is needed to better provide quality health care services for the increased number of patients that will depend on NRMC as the only acute care facility in the city of Natchez and in Adams County after the consolidation/merger occurs.

The proposed project involves approximately 33,931 square feet of renovated space located within the existing hospital. The applicant presents the following renovations to NRMC's main building: (1) optimize emergency room treatment areas to accommodate increased patient volumes; (2) renovate and expand the labor and delivery suites for new moms and families; (3) renovate and reopen the fourth floor including all patient rooms, nursing stations, and visitor areas; and (4) update NRMC's IT infrastructure throughout the hospital to improve the transmission of clinical information.

In addition, Natchez Hospital Company, LLC d/b/a Natchez Regional Medical Center asserts that the population of Natchez and Adams County is not large enough to support two hospitals. Therefore, the applicant believes that the Natchez community will be best served by one solid, well-supported community hospital. Therefore, the applicant and Natchez Community Hospital, Inc. will consolidate operations in early 2015 to create a single, operationally strong hospital located on NRMC's current campus. The applicant states that the consolidation/merger will further the applicant's goal to grow health care services in Natchez and care for a greater number of patients locally.

SHP Criterion 5 – Charity/Indigent Care

The applicant states that all patients, including the underserved, will have access to services provided by NRMC. The applicant affirms that it will provide a reasonable amount of indigent/charity care. The applicant projects that charity care will account for two percent of NRMC's gross patient revenue for years 2015 and 2016 and over \$43 million in gross patient revenue from self pay patients for the first year for the proposed project.

SHP Criterion 6 – Reasonableness of Cost

The applicant submits that the project will cost \$226.75 per square foot for renovation. NRMC asserts that the renovation costs fall within the range of previously approved projects by the MSDH. The applicant states that it will purchase industry standard equipment that is competitively priced and the cost of equipment to be purchased is not expected to exceed the median costs of equipment of similar quality.

SHP Criterion 7 – Floor Area and Space Requirements

According to the applicant, the gross square footage of the proposed project is 33,931 square feet of renovation. The project involves improvements of the first floor emergency department, third floor labor and delivery rooms, post-partum rooms and fourth floor medical surgical patient rooms at NRMCM.

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

SHP Criterion 8 – Renovation vs. Replacement

The applicant submits that the proposed renovation project is significantly less than the 85 percent cost of a replacement facility.

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 all criteria, standards, and policies of the *FY 2015 Mississippi State Health Plan* applicable to the construction, renovation, and expansion projects.

GR Criterion 2 – Long Range Plan

The applicant states that the proposed project is consistent with its plan to consolidate and merge the only two hospitals (NRMCM and Natchez Community Hospital) in Natchez, Mississippi. The applicant's consolidation/merger plan will strengthen hospital services for the benefit of the Natchez community and the surrounding area residents.

Natchez Hospital Company, LLC d/b/a Natchez Regional Medical Center asserts that after the purchase of NRMCM, the hospital's leadership assessed the hospital's existing physical plant and identified the critical importance to renovating, altering, improving and furnishing the fourth floor, the third floor women's services unit, and the first floor emergency department of the existing hospital to accommodate the consolidation/merger plan. The applicant asserts that the project must result in a facility with sufficient patient care space that will allow care-givers to provide health care services efficiently and with equipment and technology to offer quality services.

GR Criterion 3 – Availability of Alternatives

Natchez Hospital Company, LLC d/b/a Natchez Regional Medical Center asserts that if it had not purchased NRMC, the hospital probably would have closed. With the purchase of NRMC and the necessary consolidation/merger plan of NRMC and Natchez Community Hospital, Inc., the only existing options available would be to remodel and renovate NRMC or to construct a new facility. The applicant asserts that the option to construct a new hospital would cost in excess of \$100 million. Therefore, NRMC selected the option to remodel and renovate the existing fourth floor patient rooms to accommodate patient volume; ease patient flow in the emergency department; and remodel the labor and delivery rooms and post partum rooms on the hospital's first and third floors to provide health care services for the population in need of such services. The applicant believes that the project will enable NRMC to meet the health care needs of the community.

The applicant states there is no effective, less costly alternative to the project. NRMC cannot provide optimal patient care in the existing space without refurbishing and improving it. The applicant states that the cost of constructing a new facility instead would far exceed the costs of the proposed renovation project at NRMC.

GR Criterion 4 - Economic Viability

The applicant provided a three-year projected operating statement and it indicates that the total operating revenue over a projected three year period shows an increase from \$71,874,797 to \$75,193,583. In addition, the statement reflects net incomes for the first three years for the project and they are shown in Attachment 1.

The application contained a signed letter from the hospital's senior vice president of finance and treasurer, attesting to the financial feasibility of the project.

GR Criterion 5 - Need for the Project

- a. **Access by Population Served:** Natchez Regional Medical Center asserts that all patients, including those that are medically underserved, will continue to have access to services. The reallocation of space will enable the applicant to serve a greater number of the service area residents.
- b. **Relocation of Services:** The project does not propose the relocation of services outside the existing facility. The proposed project involves the renovation and improvements of the fourth floor medical/surgical patient rooms, emergency department, labor and delivery rooms, and post-partum rooms at NRMC.
- c. **Community Reaction:** The application contains 96 letters of support from health care professionals, politicians, Natchez Board of Supervisors, and citizens of Adams County. The endorsement letters express how the proposed project will aid in enhancing the quality of care at NRMC.

GR Criterion 6 - Access to the Facility or Service

Natchez Regional Medical Center submits that all patients of the service area, including Medicaid recipients, charity/medically indigent patients, racial and ethnic minorities, women, handicapped persons and the elderly have access to the services of the hospital. The applicant asserts that it currently treats medically indigent patients, a subset of the self-pay patient population, and will continue to do so during and after the proposed project is completed.

The applicant submits the following percentage of gross patient revenue (GPR) and actual dollar amount of health care provided to charity care patients for the last two years as well as the projected amounts for the two years following completion of the proposed project:

Charity Care Patients

	GPR %	GPR Dollar Amount
Historical Year 2013	1	\$1,146,000
Historical Year 2014	1	\$1,550,000
Projected Year 1	2	\$10,321,813
Projected Year 2	2	\$10,631,467

According to the applicant, NRMC does not have existing obligations under federal regulating requiring uncompensated care, community service, or access by minority/handicapped persons.

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

Natchez Regional Medical Center is located in General Hospital Service Area VII. Natchez Hospital Company, LLC d/b/a Natchez Regional Medical Center states that after the merger of the two hospitals, NRMC will be the only provider of emergency department services and labor and deliver services in Adams County, and the only primary hospital for the Natchez community and residents of the surrounding area. The applicant believes that once completed the project will enhance the health care system by offering improved health facilities needed for the community. The project is not expected to have an adverse effect on other health care providers in GHSA VII.

The Department received no letters of opposition concerning the proposed project.

GR Criterion 9 - Availability of Resources

According to the applicant, 288 FTE (full-time equivalent employees) are currently employed at NRMCMC and the project is expected to result in an additional 278 FTE at an annual additional cost of \$13,373,289. The hospital does not anticipate any staffing issues as a result of renovating its patient care areas because after the consolidation, nurses, other staff, and physicians from Natchez Community Hospital, Inc. will be utilized to staff the hospital.

GR Criterion 10 – Relationship to Ancillary or Support Services

The applicant states that all of NRMCMC's existing ancillary and support services are in place and will remain after the proposed project is completed. NRMCMC anticipates its costs and charges will remain substantially the same as a result of the project. The applicant submits that it does not anticipate any change in costs or charges and will bill for services and operate efficiently in such a manner that costs will not exceed charges.

GR Criterion 14 - Construction Projects

The application contains a cost estimate prepared by Jud Jacobs, Chief estimator of Brasfield & Gorrie, LLC and a schematic drawing concerning the proposed project.

The applicant submits that space will conform to applicable local and state licensing standards.

This project does not involve new construction. The proposed project involves 33,931 square feet of renovation space. The applicant estimates the cost of renovation to be \$226.75 per square foot. *RSMeans Building Construction Cost Data 2014 Edition* does not compare costs of renovation projects; however based on the formulas listed in the *FY 2015 MSHP*, staff concurs with the renovation costs per square foot captured in Attachment 2 of this document.

GR Criterion 16 - Quality of Care

Natchez Regional Medical Center is in compliance with the *Minimum Standards for the Operation of Mississippi Hospitals*, according to the Division of Health Facilities Licensure and Certification, MSDH. The facility is certified for participation in the Medicare and Medicaid programs.

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	0	0
b.	Renovation Cost	\$6,569,859	52.93
c.	Capital Improvements	0	0
d.	Total Fixed Equipment Cost	0	0
e.	Total Non-Fixed Equipment Cost	3,090,347	24.89
f.	Land Cost	0	0
g.	Site Preparation Cost	0	0
h.	Fees (Architectural, Consultant, etc.)	362,163	2.91
i.	Contingency Reserve	673,411	5.46
j.	Capitalized Interest	88,436	0.71
k.	Other Cost (Legal and accounting fees, hazmat, capital interest, professional fees, contingency allowances)	1,627,481	13.10
	Total Proposed Capital Expenditure	\$12,411,697	100.00

Information pertaining to the cost per square feet for the proposed renovation is listed under GR Criterion 14 – Construction Project.

Method of Financing

The applicant indicates that the proposed capital expenditure will be funded from hospital cash reserves.

C. Effect on Operating Cost

The Hospital’s three-year projected operating statement is presented at Attachment 1.

D. Cost to Medicaid/Medicare

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

Payor Mix	Utilization Percentage (%)	First Year Revenue (\$)
Medicare	40	\$ 231,606,736
Medicaid	20	115,142,928
Commercial	28	159,937,420
Self Pay	8	43,311,073
Charity Care	2	10,321,813
Other	<u>3</u>	<u>15,784,433</u>
Total	100	\$ 576,104,404

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 of Medicaid opposes this 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 2015 Mississippi State Health Plan*; the *Mississippi Certificate of Need Review Manual, 2011 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 Natchez Hospital Company, LLC d/b/a Natchez Regional Medical Center for renovation and improvements of the fourth floor, emergency department, labor and delivery rooms, and post-partum rooms.

Attachment 1

Natchez Regional Medical Center Three-Year Operating Statement (with Project)			
	Year 1	Year 2	Year 3
Revenue			
Patient Revenue:			
Inpatient	\$294,714,333	\$ 303,555,763	\$ 312,662,436
Outpatient	<u>281,390,071</u>	<u>289,831,773</u>	<u>298,526,726</u>
Gross Patient Revenue	\$ 576,104,404	\$ 593,387,536	\$ 611,189,162
Charity Care	10,321,813	10,631,467	10,950,411
Deductions from Revenue	<u>459,154,233</u>	<u>472,928,860</u>	<u>487,116,726</u>
Net Patient Revenue	\$106,628,358	\$ 109,827,209	\$ 113,122,025
Other Operating Revenue	\$ (28,878,890)	\$(29,749,937)	\$(30,647,115)
Total Operating Revenue	\$ 77,749,468	\$ 80,077,271	\$ 82,474,910
Expenses			
Operating Expenses:			
Salaries	\$ 28,457,289	\$ 29,311,008	\$ 30,190,338
Benefits	7,628,041	7,856,883	8,092,589
Supplies	8,218,433	8,464,986	8,718,936
Services	8,241,396	8,488,637	8,743,297
Lease	2,424,094	2,496,817	2,571,721
Depreciation	2,617,222	2,617,222	1,718,222
Interest	0	0	0
Other	<u>14,288,322</u>	<u>14,716,971</u>	<u>15,158,481</u>
Total Expenses	\$ 71,874,797	\$ 73,952,524	\$ 75,193,583
Net Income (Loss)	\$ 5,874,671	\$ 6,124,747	\$ 7,281,327
Assumptions			
Inpatient days*	25,316	26,075	26,858
Outpatient days*	0	0	0
Procedures	22,582	23,259	23,957
Charge/outpatient day	0	0	0
Charge per inpatient day	\$11,641	\$11,641	\$11,641
Charge per procedure	\$25,512	\$25,512	\$25,512
Cost per inpatient day	\$ 2,839	\$2,836	\$2,800
Cost per outpatient day	0	0	0
Cost per procedure	\$ 3,183	\$ 3,179	\$3,139

Attachment 2

CON Review Number: HG-R-1214-019 Natchez Regional Medical Center Computation of Renovation Cost

Cost Component	Total	Renovation Cost
New Construction Cost	0	0
Renovation Cost	\$6,569,859	\$6,569,859
Total Fixed Equipment Cost	0	0
Total Non-Fixed Equipment Cost	\$3,090,347	0
Land Cost	0	0
Site Preparation Cost	0	0
<i>Fees (Architectural, Consultant, etc.)</i>	\$362,163	\$362,163
<i>Contingency Reserve</i>	\$673,411	\$673,411
<i>Capitalized Interest</i>	\$88,436	\$88,436
<i>Other</i>	\$1,627,481	0
Total Proposed Capital Expenditure	\$12,411,697	\$7,693,869
Square Footage	33,931	33,931
<i>Allocation Percent</i>		100%
Costs Less Land, Non-Fixed Eqt., Other	\$7,693,869	\$7,693,869
Cost Per Square Foot	\$226.75	\$226.75

Source: Mississippi Certificate of Need Review Manual, Revised 2011 and FY 2015 MSHP.