

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

**CON REVIEW NUMBER: HP-CO-1214-022
VICKSBURG HEALTHCARE, LLC D/B/A
RIVER REGION HEALTH SYSTEM, VICKSBURG
COSTOVERRUN TO CON #R-0831 (CON REVIEW NUMBER: HP-CB-0310-010)
RENOVATION/ADDITION OF 20 ADOLESCENT PSYCHIATRIC BEDS/SERVICES
CAPITAL EXPENDITURE: \$805,058
ADDITIONAL CAPITAL EXPENDITURE: \$97,345.46
TOTAL CAPITAL EXPENDITURE: \$902,403.43
LOCATION: VICKSBURG, WARREN COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Vicksburg Healthcare, LLC d/b/a River Region Health System (RRHS), now known as Merit Health-River Region, is a 372-bed, acute care hospital located at 2100 Highway 61 N located in Vicksburg, Warren County, Mississippi. The licensed bed complement consists of 261 general acute care beds, 40 adult psychiatric beds, 28 adult chemical dependency beds, 12 adolescent chemical dependency beds and 31 long-term care beds, which are temporarily de-licensed.

River Region Health System currently offers the following services:

- Adult Psychiatric Services, aged 18-54
- Geriatric Psychiatric Services, aged 55 and older
- Adult Chemical Dependency Services, aged 18 and older
- Adolescent Chemical Dependency Services, aged 13-17

River Region Health System is owned by Community Health Systems of Franklin, TN, which is qualified to do business in the State of Mississippi.

River Region Health System has three (3) directors and five (5) officers.

B. Project Background

River Region Health System (RRHS) was granted Certificate of Need (CON) Number (#) R-0831 for the renovation/addition of twenty (20) adolescent acute psychiatric bed/services to its existing behavioral health program. The effective date of the CON was March 31, 2011, with an expiration date of March 31, 2012.

The applicant asserts that the scope of the original proposed project involved 20 beds to be created by renovating an 8,855 square foot medical surgical unit constructed in 1972. The aged unit is located on the second floor of the East wing of the River Region West Campus. The space was allocated to be utilized for the inpatient adolescent psychiatric unit and will include 20 private patient rooms, 2 day rooms, 2 group rooms, a seclusion room, a dining room, and a

nurses' station. The equipment items needed to offer the adolescent psychiatric services at the West Campus location are the following: closed circuit monitoring system, access control system, furniture and equipment for exam room, nursing station, dining rooms, activity rooms, and certain other moveable equipment. To address physical safety and security for patients, construction, plumbing, mechanical and engineering work were associated with the renovation portion of the project. The applicant asserts that all areas used for the Behavioral Health unit were converted to provide safety to the adolescent population.

The applicant states that all ancillary services required to operate the adolescent service and the required 15.6 full-time-equivalent personnel, at an estimated first year annual cost of \$1,082,640 are the same.

Based on the Six Month Extension/Progress Report (SME/PR) submitted on September 25, 2014 by Vicksburg Healthcare, LLC d/b/a River Region Health System regarding CON #R-0831, the applicant stated that the proposed project was 100% complete. River Region Health System's SME was approved on January 22, 2014 for CON #R-0831. The SME period will terminate on April 13, 2015. The applicant filed a Cost Overrun application with the Department on December 8, 2014 to request approval of the additional expenditure as it relates to CON #R-0831. The proposed application was reviewed by staff and entered into the January 2015 Review Cycle.

C. Project Description

River Region Health System now requests Certificate of Need authority for a cost overrun to its CON No. R-0831. The applicant asserts that the proposed cost overrun is due to the following factors:

- Unanticipated site work in the form of asbestos remediation to complete the renovation portion of the project,
- Basic cost inflation due to the time that passed between the date of CON approval of the initial project and the current, and
- Purchase of an additional security camera

The applicant asserts that RRHS received the best and most economical bid for the renovation portion of the project and details relating to the bid and schematics are included under Exhibit H of the initial application. The applicant states the approved capital expenditure in the original CON was \$805,058 and the additional amount for this cost overrun proposal is \$97,345.46, resulting in a revised capital expenditure of \$902,403.46 for the project. The applicant states that the capital expenditure made to date is \$803,760.64 and the proposed project is 100% complete. The applicant asserts that the cost overrun was discovered upon RRHS receiving the final invoices upon the completion of the project. The applicant affirms RRHS is holding all remaining invoices pending the approval of the cost overrun.

The proposed cost overrun application contained a copy of the multi-vendor figures attesting to the need for the proposed cost overrun project. As stated in the initial project, the applicant affirms that the additional capital expenditure of \$97,345.46, in the proposed cost overrun project will be financed through accumulated reserves from the parent company, Community Health System.

Staff contends that this cost overrun does not change the scope of the original project.

The Mississippi State Department of Health, Division of Health Facilities Licensure and Certification approved the original site for the proposed project.

II. TYPE OF REVIEW REQUIRED

The original project was reviewed in accordance with Section 41-7-191, (1)(c), d(iv), and 4(a)(iii) 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.

The State Health Officer reviews all projects for amendments and cost overrun in accordance with duly adopted procedures 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 March 16, 2015.

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

A. State Health Plan (SHP)

The original application was in substantial compliance with the *FY 2010 Mississippi State Health Plan*, in effect at the time the original application was submitted. The cost overrun project continues to be in compliance with the *FY 2015 Mississippi State Health Plan*.

B. General Review (GR) Criteria

The original project was in substantial compliance with the *Certificate of Need Review Manual, FY 2010 Revision*, in effect at the time of submission. This application continues to be in compliance with applicable General Review Criteria and Standards contained in the *Certificate of Need Review Manual, 2011 Revision*.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

Item	Original Approved Amount (\$)	Revised Amount (\$)	Increase/ (Decrease) (\$)
1. Construction Cost – New			
2. Construction Cost – Renovation	\$ 496,677.00	\$ 555,821.06	\$ 59,144.06
3. Capital Improvements	\$ -	\$ -	\$ -
4. Total Fixed Equipment Cost	\$ 47,000.00	\$ 72,819.36	\$ 25,819.36
5. Total Non-Fixed Equipment Cost	\$ 104,297.00	\$ 104,297.00	\$ -
6. Land Cost	\$ -	\$ -	\$ -
7. Site Preparation Cost (Asbestos Abatement)	\$ -	\$ 12,382.04	\$ 12,382.04
8. Fees (Architectural, Consulting, etc.)	\$ 57,615.00	\$ 57,615.00	\$ -
9. Fees (Legal & Accounting)	\$ 20,000.00	\$ 20,000.00	\$ -
10. Contingency Reserve	\$ 49,668.00	\$ 49,668.00	\$ -
11. Capitalized Interest	\$ -	\$ -	\$ -
12. Other (Bonds)	\$ 29,801.00	\$ 29,801.00	\$ -
Total Proposed Capital Expenditure	\$ 805,058.00	\$ 902,403.46	\$ 97,345.46

As previously mentioned, the capital expenditure approved in the original CON is \$805,058. The applicant asserts that the additional cost for the cost overrun proposal is \$97,345.46, resulting in a revised capital expenditure of \$902,403.46 for the project.

The proposed cost overrun is discussed under *C. Project Description*. The applicant states that the capital expenditure made to date is \$803,760.64 and the initial CON project is 100% complete. The proposed cost overrun does not change the scope of the original project.

B. Method of Financing

The applicant affirms that the additional capital expenditure, in the amount of \$97,345.46 for the proposed project will be financed by reserves accumulated from the parent company, Community Health System as the initial project.

C. Effect on Operating Cost

River Region Health System asserts that effect on operating costs will remain the same; however, the applicant provided verification to show that the depreciation cost will increase from \$785,058 (original) to \$903,000 as a result of the proposed cost overrun.

D. Cost to Medicaid/Medicare

The applicant states that the additional capital expenditure associated with the proposed cost overrun will not result in an increase to Medicare and Medicaid patients, the Medicare and Medicaid programs or costs or charges associated with the services provided by the 20 additional beds. The applicant affirms that RRHS will continue to provide care to all patients/residents regardless of their ability to pay or their payor source.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for comment. The Division of Medicaid states that as of September 1, 2012, the Division changed the methodology by which they reimburse outpatient services so that the cost incurred subsequent to that date will no longer affect outpatient payments.

The Division of Medicaid further states that effective October 1, 2012, the Division changed the methodology by which they reimburse inpatient services so that the cost incurred subsequent to that date will only affect outlier payments. The Division affirms that the estimated increase in cost outlier payments resulting from the proposed CON cannot be determined at this time. Therefore, the Division of Medicaid opposes the transaction of the proposed project.

VI. CONCLUSION AND RECOMMENDATION

The original application was in substantial compliance with the *FY 2010 Mississippi State Health Plan*, in effect at the time the original application was submitted; the *Mississippi Certificate of Need Review Manual, revised 2010*, and all adopted rules, procedures and plans of the Mississippi State Department of Health. The proposed cost overrun project continues to be in compliance with all applicable rules, procedures and plans in the *FY 2015 Mississippi State Health Plan* and the *Certificate of Need Review Manual, 2011 Revision*.

The Division of Health Planning and Resource Development recommends approval of this application submitted by Vicksburg Healthcare, LLC d/b/a River Region Health System (RRHS) for the cost overrun to its CON Number R-0831 for the renovation/addition of twenty (20) adolescent acute psychiatric bed/services to its existing behavioral health program.