

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
MARCH 2016**

**CON REVIEW: HG-CO-0116-001
SOUTH SUNFLOWER COUNTY HOSPITAL
COST OVERRUN TO CON #R-0857 (HG-SB-0312-008)
(HOSPITAL RENOVATION AND SWING BED PROJECT)
ORIGINAL CAPITAL EXPENDITURE: \$8,768,274
ADDITIONAL CAPITAL EXPENDITURE: \$711,396
REVISED CAPITAL EXPENDITURE: \$9,479,670
LOCATION: INDIANOLA, SUNFLOWER COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

South Sunflower County Hospital ("SSCH") is a 49-bed general acute care, short-term not-for-profit hospital located in Indianola, Sunflower County, Mississippi. In 2014, South Sunflower County hospital had a 19.73% occupancy rate. The facility is governed by a 7-member Board of Trustees and is certified to participate in the Medicare and Medicaid programs.

B. Project Background

South Sunflower County Hospital received CON authority on July 26, 2012, for renovation and establishment of the Swing Bed program. The CON had an expiration date of July 26, 2013. The applicant currently operates under an extended expiration date of July 26, 2016.

The project involved approximately 50,750 square feet of new parking area and approximately 43,117 square feet of renovated space throughout the hospital.

The total approved capital expenditure for the project was \$8,768,274, which was to be funded from cash reserves.

B. Project Description

South Sunflower County Hospital requests CON authority for a Cost Overrun of \$711,396 to CON No. R-0857. This represents an approximate increase of 8% over the approved \$8,768,274 capital expenditure. According to the applicant, the cost overrun is due to the following:

- The renovation costs are now projected to overrun the original estimates by \$633,766 as the result of the discovery of unforeseen conditions in the reconfigured and renovated spaces of the facility.
- Fees for the project are now projected to be \$54,259 higher than original estimates because the original bids for the project substantially exceeded the CON approved capital expenditure in 2012. SSCH had to

reevaluate the project and to task the designers of the project to reconfigure and redesign certain elements of the project with the object of lowering the bids for the total project cost, resulting in significant additional design fees.

- A portion of the \$624,604 contingency included in the original capital expenditure estimate for the project was utilized to cover change orders on the project. Since the project is progressing toward completion, the contingency allowance has been increased by \$34,371.

The applicant states that as of November 30, 2015, SSCH had expended \$6,266,140.86 on the project which is approximately 71.46% of the originally approved capital expenditure.

II. TYPE OF REVIEW REQUIRED

The Mississippi State Department of Health reviewed the original project, for the construction, renovation, expansion, or capital expenditure in excess of \$2,000,000, in accordance with Section 41-7-191 subparagraph (1)(j), 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 cost overruns in accordance with 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 or 1972 Annotated, as amended, any affected person may request a public hearing on this project within 20 days of publication of this staff analysis. The opportunity to request a hearing expires on April 13, 2016.

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

A. State Health Plan (SHP)

The *FY 2012 Mississippi State Health Plan (MSHP)* was in effect at the time the original application was submitted to the Department and the original application was found to be in substantial compliance with the *FY 2012 MSHP*. The cost overrun project continues to be in substantial compliance with the *FY 2015 MSHP*.

B. General Review (GR) Criteria

The *Certificate of Need Review Manual, 2011 Revision (CON Review Manual, 2011)* was in effect at the time the original application was submitted to the Department. The original project was in substantial compliance with *the CON Review Manual, 2011* and the CON cost overrun application continues to be in compliance with applicable General Review Criteria and Standards contained in the *CON Review Manual, 2011*.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

	Original Approved Amount	Revised Amount	Increase/ (Decrease)
1. New Construction Cost	\$649,969	\$ 649,969	\$ 0
2. Construction/Renovation	\$5,644,972	\$6,267,738	\$622,766
3. Land	0	0	0
4. Site Work	\$624,959	\$624,959	0
5. Fixed Equipment	\$0	\$0	\$0
6. Non-Fixed Equipment	\$592,605	\$592,605	0
7. Contingency	\$642,604	\$676,975	\$34,371
8. Fees (Architectural, Consultant, etc)	\$613,165	\$667,424	\$54,259
9. Capitalized Interest	0	\$0	\$0
Total Capital Expenditure	\$8,768,274	\$9,479,670	\$711,396

The above table represents approximately 8% increase in capital expenditure by South Sunflower. The applicant proposed to construct 50,750 square feet of new space, which includes a parking area, and renovate 43,117 square feet of space. The new construction cost of \$39.45 per square foot falls well below construction projects listed in the 2015 *RSMMeans Building Construction Cost Data*. Hospital projects listed in the publication range from a low of \$206 per square foot to \$355 per square foot. The publication does not compare projects of renovation. See Attachment 1 for computation of cost per square foot for new construction and renovation.

B. Method of Financing

According to the applicant, the project was funded through hospital reserves.

C. Effect on Operating Cost

The applicant indicates that this cost overrun project does not impact patient services and will only very modestly affect the depreciation numbers in SSCH's operating statements. SSCH projects net income of \$1,382,698 the first year.

D. Cost to Medicaid/Medicare

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

Payor Mix	Utilization Percentage (%)	First Year Revenue (\$)
Medicare	36	\$ 13,561,630
Medicaid	27	10,171,222
Other Payors	37	13,938,341
Total	100	\$ 37,671,193

Note: Staff calculated the above projections based on gross patient revenue stated in the "First Year Income Statement with Project" contained in the application. According to the applicant, the project simply involves the reconfiguring of the facility to improve delivery of existing services provided by SSCH and has no anticipated impact on Medicare, Medicaid or other reimbursement agencies.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided an opportunity to review and comment on this project. As of the analysis date, no comments were received from the Division of Medicaid.

VI. CONCLUSION AND RECOMMENDATION

This project continues to be in substantial compliance with the overall objectives of the *FY 2015 Mississippi State Health Plan; Certificate of Need Review Manual, Revision 2011*; and all adopted rules, procedures, and plans of the Mississippi State Department of Health in effect at the time of approval.

Therefore, the Division of Health Planning and Resource Development recommends approval of the application submitted by South Sunflower County Hospital for a cost overrun to CON No. R-0857. This cost overrun will allow SSCH to increase the authorized capital expenditure by \$711,396 for its Renovation and Swing Bed Project.

Attachment 1
North Mississippi Medical Center
West Bed-tower Expansion and Renovation
Computation of Construction/Renovation Cost

Cost Component	Total	New Construction	Renovation
New Construction Cost	\$649,969	\$649,969	
Renovation Cost	\$6,267,738		\$6,267,738
Total Fixed Equipment Cost	\$0	\$0	
Total Non-Fixed Equipment Cost	\$592,605	\$0	
Capital Improvement	\$0		
Land Cost	\$0	\$0	
Site Preparation Cost	\$624,959	\$624,959	
<i>Fees (Architectural, Consultant, etc.)</i>	\$667,424	\$360,876	\$306,548
<i>Contingency Reserve</i>	\$676,975	\$366,040	\$310,935
<i>Capitalized Interest</i>	\$0	\$0	\$0
Total Proposed Capital Expenditure	\$9,479,670	\$2,001,845	\$6,885,220
Square Footage	93,867	50,750	43,117
<i>Allocation Percent</i>		54.07%	45.93%
Costs Less Land, Non-Fixed Eqt.& Cap. Improvement	\$8,887,065	\$2,001,845	\$6,885,220
Cost Per Square Foot	\$94.68	\$39.45	\$159.69