

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
JUNE 2014**

**CON REVIEW: HG-A-1113-013
AMENDMENT/COSTOVERRUN TO CON # HG-RC-0910-032; R-0828
MAGNOLIA REGIONAL HEALTH CENTER
CONSTRUCTION/RENOVATION/RELOCATION
AND EXPANSION OF A HEALTH CARE FACILITY
CAPITAL EXPENDITURE: \$22,528,128
ADDITIONAL CAPITAL EXPENDITURE: \$10,546,002
TOTAL CAPITAL EXPENDITURE: \$33,074,130
LOCATION: CORINTH, ALCORN COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Magnolia Regional Health Center is a short term, general acute care, public hospital owned by the City of Corinth and Alcorn County. The facility is governed by a seven-member Board of Trustees. The facility is certified to participate in the Medicare and Medicaid programs and is accredited by the Joint Commission on Accreditation of Healthcare Organization (JCAHO).

Magnolia Regional Health Center is licensed for 164 beds. The occupancy rates, average length of stay (ALOS), and Medicaid utilization for the three most recent years are as follows for the years 2011 through 2013:

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2011	62.24	4.60	17.83
2012	58.58	4.53	17.16
2013	47.74	4.43	19.82

Source: Division of Health Facilities Licensure and Certification, MSDH

B. Project Background

Magnolia Regional Health Center was granted Certificate of Need (CON) No. R-0828 for construction, renovation, relocation and expansion of a health care facility effective date of December 16, 2010 and an expiration date of December 16, 2011. Magnolia Regional Health Center was approved for a six month extension on January 22, 2014 for CON No. R-0828. The extension period terminated on June 16, 2014; however, the applicant recently submitted a SME/Progress report on May 14, 2014. The project is pending for approval to extend CON No. R-0828 to December 16, 2014.

The scope of the original proposed project involved the consolidation, relocation and expansion of Magnolia Regional Health Center's Emergency Department and its Imaging Department; the consolidation and relocation of Registration and Pre-Admit Testing Areas, the development of space for future expansion of Surgery as well as the addition of a new entrance to the hospital, a new central energy plant to provide the infrastructure support needed, and major equipment replacements as necessary. The CON proposal involved approximately 25,221 square feet of new construction and 27,085 square feet of renovated space on the ground and first floors of Magnolia Regional Health Center.

Based on the Six Month Extension/Progress Report (SME/PR) submitted on November 15, 2013 by Magnolia Regional Health Center regarding CON No. R-0828, the applicant stated that the proposed project was 100% complete. Magnolia Regional Health Center's SME was approved on January 22, 2014 for CON No. R-0828. The SME period will terminate on June 16, 2014. The applicant filed an Amendment/Cost Overrun application with the Department on November 15, 2013, to request approval of the updates and additional expenditures as it relates to CON No. R-0828. However, our staff could not conduct a preliminary technical review of the referenced application using the CON Substantive Review Form No. 807 E because an additional filing document was needed. The applicant submitted the filing document on April 8, 2014 and the proposed application was reviewed by staff and entered into the May 2014, Review Period.

C. Project Description

Magnolia Regional Health Center now requests Certificate of Need authority for an amendment/cost overrun to its CON No. R-0828. Magnolia Regional Health Center asserts that the proposed cost overrun was inevitable to complete the construction, renovation, relocation and expansion of a health care facility. According to the applicant, the proposed cost overrun is due to the increase in construction cost as it relates to the following:

- Construction and Renovation
The applicant states that the proposed project involved demolition and renovation necessary to relocate and expand the Emergency and the Imaging Departments. The demolition and renovation for this project included architectural, mechanical, plumbing and electrical components completed in various phases of work. The applicant further states that were additional expenses associated with the proposed project relating to increased construction costs, unforeseen renovation and equipment expenditures, once the work was underway and in process.
- Logistics & Phasing of Project
The applicant asserts simple logistics and phasing of the proposed project, including weather delays, increased construction manager costs, slab mitigation, and enclosures for vertical expansion required a longer period for the demolition/renovation than originally anticipated; thus increased costs for construction/renovation period.

- Equipment Purchases
The applicant states that it was originally intended that existing equipment would be moved to the renovated and/or new construction areas of the hospital however, certain equipment items were required to be purchased in lieu of using the hospital's current equipment and fixtures. The purchase of these unanticipated equipment items in lieu of using current equipment and fixtures increased overall project costs.
- Additional Construction Standards
The applicant affirms that there were additional construction standards required for the proposed renovated areas that were not already in place, such as additional shielding requirements; infrastructure improvements (site lighting; propane tank revisions; additional cabling; expansion joints; additional gases in trauma rooms of Emergency Department, etc;). The bids for the proposed project came in higher than anticipated.
- Phasing of Project
In order to allow for uninterrupted continued hospital operations throughout the phases, delays occurred during the construction and/or renovation process and those delays increased costs.
- Parking
Parking was included in the initial planning stage however the applicant states that additional parking capacity was needed. The site work necessary for the temporary parking as well as permanent parking components of this project involved more site development work than originally anticipated, which inflated the overall project.

According to the applicant, the capital expenditure approved in the original CON is \$22,258,128, and the additional amount for this cost overrun proposal is \$10,546,002, resulting in a revised capital expenditure of \$33,074,130 for the project. The applicant states that the capital expenditure made to date is \$33,074,130 and the proposed project is 100% complete.

The proposed cost overrun application contained a copy of the revised change order form prepared by Robins & Morton/Earl Swensson Associates Architect, attesting to the financial feasibility of the proposed cost overrun project. The applicant affirms that the additional capital expenditure in the amount of \$10,546,002 for the proposed project was financed by from cash reserves.

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, subparagraph (1) (j) of the Mississippi Code of the 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 July 14, 2014.

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 amendment/cost overrun project continues to be in compliance with the *FY 2014 Mississippi State Health Plan*.

B. General Review (GR) Criteria

The original project was in substantial compliance with the *Certificate of Need Review Manual in effect, 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, September 1, 2011*.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

	Original Approved Amount	Revised Amount	Increase/ (Decrease)
1. New Construction Cost	\$ 8,274,254	\$11,324,806	\$ 3,050,552
2. Construction/Renovation	\$ 6,852,252	\$ 9,378,678*	\$ 2,526,426
3. Land	\$ 0	\$ 0	\$ 0
4. Site Work	\$ 0	\$ 0	\$ (500,000)
5. Fixed Equipment	\$ 0	\$ 309,980	\$ 309,980
6. Non-Fixed Equipment	\$ 5,030,000	\$ 8,041,615	\$ 3,011,615
7. Contingency	\$ 1,335,420	\$ 0	\$ (1,335,420)
8. Fees (Architectural, Consultant, etc)	\$ 1,036,202	\$ 0*	\$ (1,036,202)
9. Capitalized Interest	\$ 0	\$ 2,544,912	\$ 2,544,912
10. Capital Improvement	\$ 0	\$ 0	\$ 0
11. Other Costs: (Parking)	\$ 0	\$ 1,474,139	\$ 1,474,139
Total Capital Expenditure	\$22,528,128	\$33,074,130	\$10,546,002

Note: Architectural/Consultant fees included and allocated to the construction and renovation costs line items enumerated above.*

As previously mentioned, the capital expenditure approved in the original CON is \$22,258,128. The applicant asserts that the additional cost for the cost overrun proposal is \$10,546,002, resulting in a revised capital expenditure of \$33,074,130 for the project.

The applicant asserts that the proposed cost overrun is due to the increase in construction cost (See Section 1; Project Description). The applicant states that the capital expenditure made to date is \$33,074,130 and the proposed 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 \$10,546,002 for the proposed project was financed by from Magnolia Regional Health Center cash reserves.

C. Effect on Operating Cost

Magnolia Regional Health Center asserts that the only effect on operating cost will be an increase of depreciation cost from \$563,203 (original) to \$826,853 an increase by \$263,650 as a result of the proposed cost overrun.

D. Cost to Medicaid/Medicare

The applicant suggests that Medicare and Medicaid reimbursement is not based directly on cost, and the additional capital expenditure associated with the proposed amendment/cost overrun will not result in a direct increase in cost to either program. The applicant states that Magnolia Regional Health Center will include the depreciation and interest expense associated with the proposed project in their Medicare/Medicaid cost reports, as required by applicable regulations. However the applicant believes that it is not possible to provide a specific dollar amount of financial impact to the Medicare and Medicaid programs.

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 amendment/cost overrun project continues to be in compliance with all applicable rules, procedures and plans in the *FY 2014 Mississippi State Health Plan*.

The Division of Health Planning and Resource Development recommends approval of this application submitted by Magnolia Regional Health Center for the amendment/cost overrun to its CON No. R-0828 for the construction, renovation, relocation and expansion of a health care facility.