

**Division of Health Planning and Resource Development
August 2003**

**CON Review HG-A-0503-013
Delta Regional Medical Center, d/b/a
Delta Regional Outpatient Center, LLC
Amendment to CON # R-0400(Relocation and Expansion of an Ambulatory
Surgery Facility/Services) Site Change
Approved Capital Expenditure: \$1,865,000
Location: Greenville, Mississippi**

Staff Analysis

I. Project Summary

A. Facility Information

Delta Regional Outpatient Center, LLC is a limited liability company, owned by Delta Regional Medical Center, a public county-owned hospital, owned by Washington County. Delta Regional is accredited by the Joint Commission on Accreditation of Healthcare Organizations.

The licensed bed capacity of the hospital is made up of 221 medical surgical beds, 15 adult chemical dependency beds, 16 adult psychiatric beds and 16 rehabilitation beds. The applicant was granted CON approval in 2002 to expand its licensed rehabilitation beds to 32.

The occupancy rates, average lengths of stay (ALOS) and the Medicaid utilization rates for the three most recent fiscal years at Delta Regional are as follows (medical/surgical beds only):

**Delta Regional Medical Center
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid* Utilization Rate (%)
2001	38.55	5.45	18.83
2002	35.77	4.85	19.01
2003	36.30	4.43	20.85

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

B. Project Background

Delta Regional Outpatient Center, LLC received CON No. R-0400 on August 31, 2000, for construction of a 15,000 square foot ambulatory surgery center to be located on the second floor of the medical office building to be developed by Delta Regional Medical Center. After a delay of construction pending an appeal to the Mississippi Supreme Court, a judicial ruling upheld the Certificate of Need and on January 15, 2002, the Certificate of Need was upheld in final judgement.

C. Project Description

Delta Regional Medical Center requests CON authority for an amendment to its CON No. R-0400, to relocate the proposed facility to South Greenville, Mississippi. The proposed facility will be relocated from 1400 East Union to 1940-1968 Martin Luther King Boulevard, 182 acres located in the west half of Section 35, Township 18 North, Range 8 West Greenville. The ambulatory surgery center will be located in leased space in the new Delta Regional Medical Center Medical Office Building which will be constructed on the new site, pending CON approval. The applicant states that there have been no physical changes to the approved CON insofar as square footage, construction, changes in range, facilities, types of services, equipment, etc.

The applicant submits that actual construction of the medical office building was placed on hold after study of the current site's advantages and disadvantages. The applicant states that limited land for future buildings, parking space limitations to accommodate a surge in the number of expected ambulatory patients, a landlocked campus, and patient accessibility challenges caused in depth studies to be undertaken, all of which pointed to the appropriateness of the new medical office building to be located on a new campus site in South Greenville. The Board of Trustees of the Delta Regional Outpatient Center, LLC endorsed the move of the CON approved ambulatory surgery center to the new South Greenville campus. The applicant expects construction of the ambulatory surgery center to commence in 2004.

II. Type of Review Required

The State Health Officer reviews all projects for amendment 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 September 4, 2003.

III. Conformance With the *State Health Plan* and Other Adopted Criteria and Standards

A. *State Health Plan (SHP)*

The *Mississippi State Health Plan* addresses criteria and standards which an applicant is required to meet before receiving CON authority for the construction of new ambulatory surgery facilities and for offering of ambulatory surgery services. The original application was in

substantial compliance with the applicable criteria and standards stated in the Plan in effect at the time of the original application. This application for the amendment/site change continues to be in compliance with the *State Health Plan*.

B. General Considerations

Chapter 8 of the *Mississippi Certificate of Need Review Manual, 2000 Revisions*, addresses general criteria by which all CON applications are reviewed. The project was in substantial compliance with general review criteria at the time of original submission, and continues to be in substantial compliance with said criteria.

Attorney for The King’s Daughters Hospital, Greenville, Mississippi, filed written comments on the application for amendment. The attorney asserts that Delta Regional has failed to demonstrate any significant activity toward meeting requirements of “good faith effort to obligate approved expenditure” or “commencement of construction.” Further assertion was made that Delta Regional has failed to document existing need and documentation for the likely additional costs of relocation.

IV. Financial Feasibility

A. Capital Expenditure Summary

	Original Approval	Revised Capital Expenditure	Increase/ (Decrease)
New Construction	\$ 1,145,000.00	\$ 1,145,000.00	\$-0-
Fixed Equipment Cost	\$ 225,000.00	\$ 225,000.00	\$-0-
Non-Fixed Equipment	\$ 370,000.00	\$ 370,000.00	\$-0-
Fees	\$ 125,000.00	\$ 125,000.00	\$-0-
Contingency Reserve	\$ - 0-	\$-0-	\$-0-
Total Proposed Capital Expenditure	\$1,865,000.00	\$1,865,000.00	\$-0-

The original capital expenditure was proposed for the construction of 15,000 square feet of space to be located on the second floor of a medical office building, to be constructed by Delta Regional Medical Center. This amendment seeks relocation of the site stated in the original application to a new site in South Greenville. The applicant does not anticipate a change in the projected capital expenditure of the ambulatory surgery facility.

B. Method of Financing

The applicant states that Delta Regional Medical Center has sufficient cash reserves to fund both the medical office building and ambulatory surgery center projects. However, a letter of commitment was provided by Trustmark Bank indicating their interest in financing either project, if requested by Delta Regional Medical Center's Hospital Administration.

C. Effect on Operating Cost

The applicant projects the following expenses, utilization and results during the first three years of operation for the entire facility:

Expenses	Year One	Year Two	Year Three
Salary & Benefits	\$ 728,084	\$ 785,637	\$ 845,988
Ins. & Taxes	128,938	167,610	182,959
Supplies	62,125	79,450	91,280
Office Supplies	387	612	730
Mainte. & Repair	115,500	120,000	124,500
Building/Lease	201,000	207,030	213,241
Telephone	7,800	8,200	9,000
Depreciation	<u>74,375</u>	<u>74,375</u>	<u>74,375</u>
Total Expenses	\$ <u>1,318,209</u>	\$ <u>1,442,914</u>	\$ <u>1,542,073</u>
Surgical Cases	4,200	4,221	4,242
Cost/Per Case	\$ 314	\$ 342	\$ 364
Charge/Per Case	\$ 1,288	\$ 1,343	\$ 1,397
Revenue			
Surgical	\$5,409,600.00	\$ 5,667,200.00	\$ 5,924,800.00
GI/Bronchoscopy	336,000.00	352,000.00	368,000.00
Deductions (-)	<u>2,930,256.00</u>	<u>3,069,792.00</u>	<u>3,209,328.00</u>
Net Revenue	\$2,815,344.00	\$ 2,949,408.00	\$ 3,083,472.00
Net Income	\$1,497,135.00	\$ 1,506,494.00	\$ 1,541,399.00

The applicant submits that the above projections, contained in the original application, remain true for the purposes of this amendment. The applicant further projects that if new calculations are necessary, both revenues and expenses would be adjusted by 10 percent, with a strong financial performance still projected. Also noted in the amendment application is the fact that Delta Regional Medical Center has recruited new surgeons in the past 36 months, thereby strengthening the case assumptions.

D. Cost to Medicare/Medicaid

The impact of the project on third party payors is as follows:

Payor Mix	Utilization Percentage	First Year Cost
Medicaid	15.00%	\$ 197,731.00
Medicare	50.00%	\$ 659,105.00
Other Payors	35.00%	\$ 461,373.00
Total	100.00%	\$ 1,318,209.00

The applicant projects 10 percent care to medically indigent patients.

IV. Recommendation of Other Affected Agencies

The Division of Medicaid did not oppose the original project. The Division of Medicaid stated that outpatient services are paid as outlined in the State Plan, and took no position on the amendment application.

V. Conclusion and Recommendation

The project was in substantial compliance with the criteria and standards for the establishment/relocation of ambulatory surgery services as contained in the *FY-1999 State Health Plan*, in effect at the time of the original application; Chapter 8 of the *Certificate of Need Review Manual, 2000 Revision*; and all adopted rules, procedures, and plans of the Mississippi State Department of Health. The project is a change in scope from the original project, but does not change the overall objectives of the project.

Therefore, the Division of Health Planning and Resource Development recommends approval of this amendment application submitted by Delta Regional Medical Center.