

**MISSISSIPPI STATE DEPARTMENT OF HEALTH  
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT  
SEPTEMBER 2009**

**CON REVIEW HG-R-0709-018  
UNIVERSITY OF MISSISSIPPI MEDICAL CENTER  
UMMC SURGICAL SHORT STAY RENOVATION  
CAPITAL EXPENDITURE: \$5,348,093  
LOCATION: JACKSON, HINDS COUNTY, MISSISSIPPI**

**STAFF ANALYSIS**

**I. PROJECT SUMMARY**

A. Applicant Information

The University of Mississippi Medical Center (UMMC) is a state owned not-for-profit acute care teaching inpatient hospital with full emergency and outpatient services. The facility has a management service agreement with Quorum Health Resources of Nashville, Tennessee. The full authority and ultimate control of the hospital remains with the Board of Trustees of State Institutions of Higher Learning, with administrative authority delegated to the Chancellor and Vice Chancellor for Health Affairs of the University of Mississippi Medical Center. The facility is accredited through the Joint Commission on Accreditation of Healthcare Organizations.

The hospital is currently licensed to operate 664 medical/surgical beds, 21 adult psychiatric beds, 12 pediatric psychiatric beds and 25 rehabilitation beds. The total licensed bed capacity is 722.

The occupancy rates, average lengths of stay (ALOS), and the Medicaid utilization rates for UMMC are as follows for the years 2006 through 2008:

**University of Mississippi Medical Center  
Utilization Data**

<b>Fiscal Year</b>	<b>Occupancy Rate (%)</b>	<b>ALOS (Days)</b>	<b>Medicaid Utilization Rate (%)</b>
2006	60.81	6.42	51.72
2007	56.57	6.33	51.62
2008	61.38	6.57	50.97

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

**B. Project Description**

The University of Mississippi Medical Center requests Certificate of Need (CON) authority for renovation of the surgical short stay unit on the campus of the existing hospital. The applicant states that the proposed project is located in the shell space of the adult tower of University of Mississippi Medical Center, adjacent to the surgical recovery rooms. The project involves renovation of the shell space as well as adjacent space on the old west wing for a combined area of 17,675 square feet. According to the applicant, the primary focus of the proposed project is to provide up to 23-hour recovery spaces (30) for the surgical unit. In addition, an intensive critical care unit waiting room with a consultation room, a 12-person conference room, recovery room nurses station, and a mechanical room are dedicated to this project. The intent of the spatial development is to provide a state-of-the-art short-term recovery area with inviting waiting and patient care areas. No major equipment (fixed or non-fixed) purchases and no additional inpatient rooms are planned for this proposed project.

The total proposed capital expenditure is \$5,348,093 and of that amount, approximately 89.29 percent is for renovation; 6.25 percent for fees (architectural, consultant, etc.); 4.46 percent for contingency reserve. The applicant proposes to finance this project through cash reserves.

The applicant indicates that the proposed capital expenditure will be obligated upon approval and it is anticipated that the proposed project will be complete by March 27, 2010. MSDH Division of Health Facilities Licensure and Certification asserts that the site meets all applicable requirements and is approved.

**II. TYPE OF REVIEW REQUIRED**

The Mississippi State Department of Health reviews applications for construction, renovation, expansion, or capital improvement involving a capital expenditure in excess of \$2,000,000, under the applicable statutory requirements of Section 41-7-191, subparagraph (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 October 11, 2009.

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

**A. State Health Plan (SHP)**

The *FY 2009 State Health Plan* contains criteria and standards which an applicant is required to meet before receiving CON authority for construction, renovation, expansion, or capital improvement involving a capital expenditure in excess of \$2,000,000. The application is in substantial compliance with these criteria.

**SHP Criterion 1 – Need**

**Projects which do not involve the addition of any acute care beds:** The applicant shall document the need for the proposed project. Documentation may consist of, but is not limited to, citing of licensure or regulatory code deficiencies, institutional long-term plans (duly adopted by the governing board), recommendations made by consultant firms, and deficiencies cited by accreditation agencies (JCAHO, CAP, etc.). In addition, for projects which involve construction, renovation, or expansion of emergency department facilities, the applicant shall include a statement indicating whether the hospital will participate in the statewide trauma system and describe the level of participation, if any.

According to the applicant, renovation of the shell space into a surgical short stay unit will allow UMMC to offer a higher quality of patient care with private up to 23-hour recovery spaces, surgery waiting, and intensive critical care unit waiting room.

According to the applicant, it was determined through in-house strategic planning that the proposed course of action was the most appropriate in light of recent facility addition and current space utilization. The current surgical short stay unit does not allow for patient/family centered care.

This project will not involve additional beds or the offering of a new institutional health service.

University of Mississippi Medical Center participates in the statewide trauma system as the state's only in-state Level 1 Trauma Center.

**SHP Criterion 2 – Bed Service Transfer/Reallocation/Relocation**

This project does not involve the transfer/reallocation or relocation of beds.

**SHP Criterion 3 – Uncompensated Care**

The applicant submits the following percentages of historical/projected gross patient revenue provided or to be provided to the medically indigent/charity care patients for the past two years and for the first two years of this project:

<b>Gross Patient Revenue Amount</b>		
	<b>Medically Indigent (%)</b>	<b>Charity Care (%)</b>
Historical Year 2007	18	4
Historical Year 2008	17	3
Projected Year 1	15	4
Projected Year 2	15	4

#### **SHP Criterion 4- Cost of Project**

According to the applicant, the proposed project is the only renovation of an existing surgical short stay unit at UMMC. Therefore, there is no data for comparison for this proposed project.

- a. Cost per square foot: This project involves renovation of the shell space as well as adjacent space on the old west wing for a combined area of 17,675 square feet on the University of Mississippi Medical Center campus.

The proposed renovation project shall cost approximately \$302.58 per square foot.

- b. The proposed project does not involve the purchase of fixed or non-fixed equipment.

#### **SHP Criterion 5 – Floor Area and Space Requirements**

The applicant indicates that the total project will be 17,675 square feet of renovated space. The applicant asserts that this project was developed by a cross section of clinical staff, physicians, architect and AIA Guidelines for Design and Construction of Hospitals and Health Care Facilities.

#### **SHP Criterion 6 –Renovation versus Replacement**

According to the applicant, the physical location of the service and its relationship to the surrounding services dictated that UMMC renovate the shell space to meet its needs versus build a new structure. This was the justification for its decision.

#### **SHP Criterion 7 – Need for Service**

The applicant states that the surgical short stay unit will provide direct support for UMMC's surgical unit and the Trauma Center at UMMC. The hospital specifically supports the *State Health Plan* by:

- Participating within the statewide trauma system
- Provides health care for specific populations, such as babies, adolescents, the indigent, the uninsured, and minorities
- Provides for the needs of persons with mental illness, mental retardation/developmental disabilities, and/or handicaps
- Increases the accessibility, acceptability, continuity, and quality of health services

**Note:** All projects are reviewed under the *Plan* in effect at the time the application is received. This application was received July 17, 2009, and the *2010 State Health Plan* had an effective date of September 1, 2009. Therefore, the application is reviewed under the *2009 Plan*.

**B. General Review (GR) Criteria**

Chapter 8 of the *Mississippi Certificate of Need Review Manual, Revised February 23, 2008*, addresses general criteria by which all CON applications are reviewed. This application is in substantial compliance with general review criteria.

**GR Criterion 3 – Availability of Alternatives**

According to the applicant, due to the location of the proposed project in relation to the surgical short stay unit and ICU, it was determined that this project was the most feasible course of action. The applicant believes that this option will improve and change its focus to provide up to 23-hour recovery space in a state-of-the-art short-term recovery area with inviting waiting and patient care areas.

**GR Criterion 4 - Economic Viability**

As the project is for renovation of existing space and services, it is non-revenue producing. The applicant projects that depreciation will increase by \$267,405 per year, resulting in net operating income of \$1,485,749 the first year, \$1,538,347 the second year, and \$1,592,522 the third year after the project is completed. Therefore, the project appears to be economically viable. See Attachment 2.

The application contains a statement signed by the Chief Accounting Officer of UHHS and CPA of UMMC attesting to the viability of this project. The project is being funded by the hospital's cash reserves.

**GR Criterion 5 - Need for the Project**

- a. **Access by Population Served:** The applicant asserts that all populations will be served regardless of their ability to pay. The proposed expansion will greatly assist with patient flow throughout the hospital and improve length of stay issues.
- b. **Relocation of Services:** This application does not propose the relocation of services. According to UMMC, the proposed project involves renovation of the existing surgical short stay unit on the campus of the existing hospital. The project involves renovation of the shell space as well as adjacent space on the old west wing for a combined area of 17,675 square feet.
- c. **Current and Projected Utilization of Like Facilities in the Area:** No additional services are being proposed.
- d. **Probable Effect on Existing Facilities in the Area:** The applicant states that the surgical short stay unit/service delivered to the public will only be enhanced by the state-of-the-art facility. The proposed project will allow UMMC to fulfill its mission to patients and families of Mississippi. The project proposes renovation of the existing surgical short stay unit on the campus of the existing hospital. Therefore, no

significant effect is anticipated on existing facilities in the area.

- e. **Community Reaction:** The application included three (3) letters of support for the proposed project.

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

#### **GR Criterion 6 - Access to the Facility or Service**

- a. **Medically Underserved Population:** The University of Mississippi Medical Center asserts that it serves all residents of the health planning service area, including Medicaid recipients, charity/medically indigent patients, racial and ethnic minorities, women, handicapped persons and the elderly. The applicant believes that the proposed project will allow the UMMC to improve the quality of care given to the most critically ill of patients and their families at the state's only Level 1 trauma hospital.
- b. **Performance in Meeting Federal Obligations:** The applicant states that the hospital has no existing obligations under any federal regulation requiring provision of uncompensated care, community service, or access by minority/handicapped persons.
- c. **Unmet Needs to be Served by Applicant:** The University of Mississippi Medical Center states that the hospital is a disproportionate share facility and qualifies for Medicaid UPL payments. The hospital does not restrict access by medically indigent patients.

#### **GR Criterion 7 - Information Requirement**

The applicant asserts 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**

University of Mississippi Medical Center, states that it is the only Level 1 Trauma hospital in the state of Mississippi. The surgical short stay unit supports the hospital in its mission. The current patient population accesses the services via emergency room, referring physicians, and hospital to hospital transfers.

The applicant believes that failure to implement the proposed project will cause the surgical/ICU waiting room to continue to be congested and patient flow will continue to be affected.

Because no new services will be offered as a result of this project, staff concludes that this project would have no adverse affect on other providers in the referenced service area.

#### **GR Criterion 9 - Availability of Resources**

According to the applicant, the current surgical short stay unit is staffed appropriately and sufficient coverage is available for any volume. The applicant states that the existing

surgical short stay unit has 100 percent of its positions filled.

**GR Criterion 14 - Construction Projects**

- a. **Cost Estimate:** The application contains a cost estimate prepared by Cooke Douglas Farr Lemons Architect.
- b. **Schematic Drawing:** The application contains a schematic drawing of the proposed project.
- c. **Space Allocations:** The applicant submits that space will conform to applicable local and state licensing standards.
- d. The project does not involve new construction.
- e. **Cost per Square Foot:** The proposed project involves approximately 17,675 square feet of renovated space at an estimated cost of \$302.58 per square foot (See Attachment 1). The *Means Construction Cost Data, 2009* does not compare costs for renovation.

**GR Criterion 16 - Quality of Care**

The University of Mississippi 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 accredited by the Joint Commission on Accreditation of Health Care Organizations and quality is monitored and reviewed by the hospital's Performance Improvement and Risk Management departments.

**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.	Construction Cost -- Renovation	\$4,775,083	89.29%
c.	Capital Improvements	0	0
d.	Total Fixed Equipment Cost	0	0
e.	Total Non-Fixed Equipment Cost	0	0
f.	Land Cost	0	0
g.	Site Preparation Cost	0	0
h.	Fees (Architectural, Consultant, etc.)	334,256	6.25%
i.	Contingency Reserve	238,764	4.46%
j.	Capitalized Interest	0	0
k.	Other	0	0
	<b>Total Proposed Capital Expenditure</b>	<b>\$5,348,093</b>	<b>100%</b>

The above capital expenditure is proposed for renovation of UMMC surgical short stay unit. The proposed project involves approximately 17,675 square feet of renovated space at an estimated cost of \$302.58 per square foot (See Attachment 1). The *Means Construction Cost Data, 2009*, does not compare costs of renovation projects.

**B. Method of Financing**

The applicant proposes to finance this project through University of Mississippi Medical Center's cash reserves.

**C. Effect on Operating Cost**

The University of Mississippi Medical Center states that the proposed project will not result in significant changes in revenues or expenses. It is merely a renovation project of existing space to move existing services on UMMC campus. The applicant asserts that the only effect on operating cost will be \$267,405 depreciation cost per year. See attachment 2 for the applicant's operating statement.

**D. Cost to Medicaid/Medicare**

As stated above, the proposed project will not result in significant changes in revenues or expenses. It is merely a renovation project of existing space to move existing services on UMMC campus. The project is being financed from University of Mississippi Medical Center's cash reserves.

**V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES**

The Division of Medicaid was provided an opportunity to review and comment on this project.

**VI. CONCLUSION AND RECOMMENDATION**

This project is in substantial compliance with the criteria and standards for the construction, renovation, expansion, capital improvements, replacement of health care facilities, and addition of hospital beds as contained in the *FY 2009 State Health Plan*; the *Mississippi Certificate of Need Review Manual, Revised February 23, 2008*; 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 University of Mississippi Medical Center for renovation of the existing surgical short stay unit.

**University of Mississippi Medical Center  
 HG-R-0709-018  
 Attachment 1  
 Computation of Renovation Cost\***

<b>Cost Component</b>	<b>Total</b>	<b>Renovation</b>
New Construction Cost	0	0
Renovation Cost	\$4,775,083	\$4,775,083
Total Fixed Equipment Cost	0	0
Total Non-Fixed Equipment Cost	0	0
Land Cost	0	0
Site Preparation Cost	0	0
Fees (Architectural, Consultant, etc.)	\$334,256	\$334,256
Contingency Reserve	\$238,754	\$238,754
Capitalized Interest	0	0
Other	0	0
<b>Total Proposed Capital Expenditure</b>	<b>\$5,348,093</b>	<b>\$5,348,093</b>

Square Footage	<b>17,675</b>	<b>17,675</b>
<i>Allocation Percent</i>		100%

<b>Costs Less Land, Non-Fixed Eqt. &amp; Other</b>	<b>\$-0-</b>	<b>\$5,348,093</b>
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<b>\$302.58</b>	<b>\$302.58</b>
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\*Source: Mississippi Certificate of Need Review Manual, Revised February 23, 2008

**University of Mississippi Health Care**  
**UMC Surgical Short Stay Renovation**  
**TABLE 5C**  
**INCOME STATEMENT WITH PROJECT**

	Latest Actual	Proposed Year 1	Proposed Year 2	Proposed Year 3
<b>Revenue</b>				
Inpatient Care Revenue	\$ 900,483,405	\$ 1,078,566,083	\$ 1,132,494,386	\$ 1,189,119,105
Outpatient Care Revenue	610,937,330	697,074,030	731,927,732	768,524,120
<b>Gross Patient Care Revenue</b>	<b>\$ 1,511,420,735</b>	<b>\$ 1,775,640,113</b>	<b>\$ 1,864,422,118</b>	<b>\$ 1,957,643,225</b>
Charity Care	\$ (45,987,401)	\$ 4,183,121	\$ 4,308,614	\$ 4,437,872
Deductions from Revenue	786,867,136	922,412,207	985,597,375	1,052,453,740
<b>Net Patient Care Revenue</b>	<b>\$ 770,541,000</b>	<b>\$ 849,044,785</b>	<b>\$ 874,516,129</b>	<b>\$ 900,751,613</b>
Other Operating Revenue	\$ 76,211,000	\$ 77,769,968	\$ 80,103,067	\$ 82,506,159
<b>Total Operating Revenue</b>	<b>\$ 846,752,000</b>	<b>\$ 926,814,753</b>	<b>\$ 954,619,196</b>	<b>\$ 983,257,772</b>
<b>Operating Expense</b>				
Salaries	\$ 209,795,229	\$ 228,211,140	\$ 235,057,474	\$ 242,109,198
Benefits	58,345,802	60,450,929	62,264,456	64,132,389
Supplies	118,800,890	131,470,402	135,414,514	139,476,949
Services	134,180,603	136,431,172	140,524,107	144,739,830
Lease	6,107,764	8,388,195	8,639,840	8,899,035
Depreciation	22,999,991	27,972,783	28,803,944	29,660,040
Interest	4,566,721	4,565,503	4,702,468	4,843,542
Other	253,405,000	327,838,880	337,674,046	347,804,267
<b>Total Operating Expense</b>	<b>\$ 808,202,000</b>	<b>\$ 925,329,004</b>	<b>\$ 953,080,849</b>	<b>\$ 981,665,250</b>
<b>Net Operating Income (Loss)</b>	<b>\$ 38,550,000</b>	<b>\$ 1,485,749</b>	<b>\$ 1,538,347</b>	<b>\$ 1,592,522</b>
<b>Operating Expense per Unit</b>				
	Latest Actual	Proposed Year 1	Proposed Year 2	Proposed Year 3
Inpatient days	163,372	172,808	176,264	179,789
Outpatient visits	239,853	243,561	248,432	253,400
Procedures	0	0	0	0
Charge per outpatient day	\$ 2,547	\$ 2,862	\$ 2,946	\$ 3,033
Charge per inpatient day	\$ 5,512	\$ 6,241	\$ 6,425	\$ 6,614
Charge per procedure	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Cost per inpatient day	\$ 4,947	\$ 5,355	\$ 5,407	\$ 5,460
Cost per outpatient day	\$ 3,370	\$ 3,799	\$ 3,836	\$ 3,874
Cost per procedure	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!