

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

**CON REVIEW: HG-RLS-1009-027
NESHOPA COUNTY GENERAL HOSPITAL
CONSTRUCTION OF A REPLACEMENT HOSPITAL
CAPITAL EXPENDITURE: \$53,596,688
LOCATION: PHILADELPHIA, NESHOPA COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Neshoba County General Hospital (NCGH) is an 82-bed county owned, not-for-profit, general acute care hospital managed by Quorum Health Resources, LLC, in Brentwood, Tennessee. The hospital is governed by a five-member Board of Trustees appointed by the Neshoba County Board of Supervisors. Certified for both Medicaid and Medicare participation, the hospital also operates a 10-bed swing-bed program and a 10-bed gero-psych program. In addition, the applicant owns and operates Neshoba County Nursing Home, a 148-bed long term care facility.

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

**Neshoba County General Hospital
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2006	27.04	3.78	19.41
2007	25.59	3.69	18.81
2008	18.62	3.36	18.23

Source: Division of Health Facilities Licensure and Certification, MSDH

B. Project Description

Neshoba County General Hospital is requesting Certificate of Need (CON) authority for the construction of a replacement facility that will be located on a seven-acre parcel of land located on the southeast corner of NCGH's current campus. The applicant states that this location allows the hospital to remain close to its nursing home and adjacent office building, fulfilling its vision to create a comprehensive healthcare campus.

The proposed facility will be a two-story building, approximately 99,881 sq. ft. in size, will be licensed for 44 general acute care hospital beds, and will be connected to the existing nursing home with a connecting corridor. According to the applicant, the proposed facility will (1) offer the efficient flow of patients through the facility; (2) protect against the spread of infectious diseases among patients; (3) ensure a pleasant and comfortable surrounding for the patients and their families; (4) include 44 private patient rooms with private baths; (5) add state-of-the-art health information technology; (vi) provide appropriate space for state-of-the-art radiology and laboratory services, respiratory and physical therapy departments, imaging, and intensive care/cardiac care units and pharmacy; (7) include three operating/procedure rooms; (8) increase NCGH's emergency room capacity to handle increased volume; and (9) provide a helipad for emergency patients. The applicant believes that the design and upgraded services of the replacement facility will allow the hospital to respond more appropriately to the needs of individuals residing in its service area.

The first floor of the facility will be approximately 71,831 square feet which will include the following departments: Emergency, Imaging, Surgery, Central Sterile, Lab, Cardio Pulmonary/Respiratory Therapy, Administration, Medical Records, Physicians Lounge, Dietary, Environmental Services, Information Technology, Materials Management and a Powerhouse to support the new building.

The second floor will be approximately 28,050 square feet which will include 40 medical/surgical patient beds and 4 acuity adaptable beds.

The new building will be structured for an additional floor to allow for additional beds in the future. The departments on the first floor will also be designed for future expansion.

The applicant proposes to continue to utilize 10 geriatric psychiatric beds at the existing hospital facility location once the replacement hospital is completed and operational. The remaining 28 beds will be voluntarily de-licensed pursuant to Miss. Code Ann. §41-7-191 (l)(c) and held in abeyance.

The applicant anticipates that the project will require 7.4 FTE physicians and 23.1 FTE non-physician personnel at an estimated cost of \$1,747,372 the first year.

The site of construction has been approved by the Division of Licensure and Certification. The applicant anticipates that the capital expenditure will be obligated by June 1, 2010, and construction is expected to be complete by June 30, 2012.

II. TYPE OF REVIEW REQUIRED

The Mississippi State Department of Health reviews applications for the relocation and replacement of health care facilities within 5,280 ft. of the existing facility and requiring a capital expenditure of \$2,000,000 or more in accordance with Section 41-7-191 (1)(b) and (j), 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 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 December 7, 2009.

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

A. State Health Plan (SHP)

The *FY 2010 State Health Plan* ("Plan") contains criteria and standards for the construction, renovation, expansion, capital improvements, replacement of health care facilities, and addition of hospital beds. The instant project is in substantial compliance with said criteria and standards.

SHP Criterion 1 – Need

Documentation of need for projects which do not involve the addition of any acute care beds 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.

The applicant submits that Neshoba's current facility was constructed in 1963 and has undergone only minor renovation since that time. The applicant states that the current facility is obsolete for the continuing provision of health care services and, if a replacement facility is not constructed, the inadequate physical facilities will cause overall patient services to suffer, act as a barrier to physician recruitment, and a hindrance to Neshoba County's full economic development.

Neshoba further submits that in August 2003, American Health Facilities Develop (AHFD) prepared an engineering report for the existing facility

and identified major problems with the facility's domestic hot and cold water and sanitary sewers, heating and air conditioning, normal electric systems, fire protection, central chilled water, and boiler system. The application contains minutes of the Board dating back to 2005, discussing the need to replace the facility.

The applicant plans to replace its emergency department and participate in the statewide trauma system as a Level IV trauma care provider. Documentation was included in the application to confirm the applicant's level of participation in the trauma system.

SHP Criterion 2 – Bed Service Transfer/Reallocation/Relocation

The applicant proposes to relocate 44 general acute care beds and services to the proposed replacement hospital facility. The geriatric psychiatric beds will remain at the existing hospital facility. The facility will continue to be utilized to house the hospital's dietary services, laundry and linen services, and some of its administrative offices. Neshoba certified that it will meet all regulatory and/or licensure requirements for the type of beds/services being relocated.

SHP Criterion 3 – Charity/Indigent Care

Neshoba certified that it will provide a reasonable amount of indigent/charity care in its proposed hospital replacement facility. The applicant states that it provided \$3,436,988 in charity care in 2008 and projects that by 2014 it will be providing \$6,165,151 in charity care. The applicant further states that as a county-owned community hospital, it is committed to serving its indigent and charity care patient populations.

SHP Criterion 4 – Reasonableness of Cost

Based on the formula contained in the Plan, the proposed project will cost \$402 per square foot. The Means Construction Cost Data, 2009 Edition, list the Median cost per square foot as \$212.

Construction projects reviewed by the Department within the most recent 12-month period estimated cost ranging from \$298 per sq. ft. to \$411 per sq. ft., with a median cost of \$328. Therefore, the applicant's cost, based on the Department's calculations of \$402, does exceed the median costs of projects in the state by more than 15 percent (See Attachment 2A). The applicant avers, however, that the figures contained in the Means Cost Construction Data, 2009, are based on building construction costs only, and do not take into account site preparation, fixed equipment, contingency and capitalized interest costs, as used in the Department's formula. The applicant therefore estimates its cost for the proposed replacement facility to be \$282 per square foot.

The applicant submits that the equipment costs for the project do not exceed the median costs for equipment of similar quality by more than 15%. Neshoba believes that the equipment budget is comparable and reasonable as compared to other projects.

SHP Criterion 5 – Floor Areas and Space Requirements

The applicant specified the floor areas and space requirements of the project. The gross square footage of the proposed hospital replacement facility is estimated to be 99,981 square feet, which the applicant states compare favorably with the state and national norms for similar projects.

SHP Criterion 6 – Replacement vs. Renovation

The applicant proposes to replace the hospital in lieu of renovation. Therefore, this criterion is not applicable.

SHP Criterion 7 – Service Specific Criteria

The project does not require any new services.

B. General Review (GR) Criteria

Chapter 8 of the Mississippi Certificate of Need Review Manual, Revised September 1, 2009, addresses general criteria by which all Certificate of Need (CON) applications are reviewed.

GR Criterion 1 – Consistency with the State Health Plan

The project was found to be in substantial compliance with the 2010 State Health Plan.

GR Criterion 2 – Long Range Plan

The applicant submits that the proposed replacement facility is consistent with Neshoba's long-range plans to provide quality, efficient healthcare to all residents of Neshoba's service area.

GR Criterion 3 – Availability of Alternatives

Neshoba stated that it engaged the services of Gould Turner Group, P.C., an architectural firm located in Nashville, TN, to prepare a master facility plan identifying approaches that Neshoba could take to upgrade its facility. The results of the master facility plan were presented to Neshoba's Board of Trustees and members of management on December 4, 2008. The master plan prepared by the architectural firm consisted of the following four options: (1) do nothing and maintain the status quo, (2) construct an on-campus replacement hospital, (3)

construct an off-campus replacement hospital, or (4) renovate and expand the existing 50-year old hospital building to accommodate new ancillary services, beds and support services. The applicant believes that the project, to construct an on-campus replacement hospital facility rather than continuing the status quo, constructing a replacement facility off campus, or renovating and expanding the existing hospital facility most effectively benefits the residents of Neshoba County and the surrounding areas and best complements Neshoba's efforts to provide quality health care.

GR Criterion 4 – Economic Viability Update

Based on the applicant's three-year projections, this project will decrease the applicant's net income by \$2,660,302 the first year, \$4,115,138 the second year, and \$3,836,590 the third year. Overall, the facility proposes net income of \$1,368,649 the first year, \$36,826 the second year and \$347,904 the third year after replacement of the hospital.

- a. **Proposed Charge:** The applicant submits that the replacement facility will continue to offer substantially the same services that it offers in its current facility; therefore, charges will not increase as a result of this project. However, the applicant projects a modest 4% increase which it states are unrelated to the project and would occur even if Neshoba did not construct the replacement hospital.
- b. **Projected Levels of Utilization:** Neshoba projects that its occupancy rates will increase to a level experienced by similar facilities in the hospital service area. Currently the average utilization rate for hospitals in General Hospital Service Area 6 is 43.65%.
- c. **Project's Financial Feasibility Study:** The application contains a letter signed by the Chief Financial Officer, attesting to the financial feasibility of this project.

GR Criterion 5 – Need for Project

- a. **Access by Population Served:** The applicant affirms that all residents of the service area, in particular low income persons, racial and ethnic minorities, women, handicapped persons, and other underserved groups, and the elderly, will continue to have access to its facility.
- b. **Relocation of Services:** The applicant proposes to replace its facility on the existing hospital campus and serve the same population as it currently serves.

Neshoba proposes to continue to utilize the existing hospital facility to house 10 geriatric psychiatric beds, dietary to service its

nursing home facility, laundry and linen, and administrative offices. It states that it is also considering turning some of the space in the existing facility into physician office space and/or leasing space to East Central Community College to be use for the College's nurse training program.

- c. **Probable Effect on Existing Facilities in the Area:** The applicant submits that the proposed project will have no effect on existing facilities in the area as it is a replacement hospital facility located on the campus of Neshoba's current facility. No new services are proposed by the project.
- d. **Community Reaction:** The application contains approximately 23 letters of support for the proposed project from the area's health care facilities, the County Board of Supervisors, House of Representatives, the Mississippi State Senate, other area businesses, and residents.

No letters of opposition for the proposed project were received.

GR Criterion 6 – Access to the Facility or Service

- a. **Medically Underserved Population:** According to Neshoba, it provided \$3,436,988 in charity care in 2008 and projects that it will provide \$3,500,000 in charity care in 2009. The applicant believes that the extent to which it provides services to medically underserved populations is comparable or greater than the extent to which other providers in the area provide similar services. The applicant further projects that the amount of charity care will increase to \$6,165,151 by 2014.

The applicant further states that all residents of its service area, including Medicaid recipients, charity care and medically indigent patients, racial and ethnic minorities, women, handicapped persons, and the elderly have access to services provided by Neshoba and will continue to have access to services in the replacement hospital facility.

- b. **Performance in Meeting Federal Obligations:** The applicant submits that Neshoba has no obligations under federal regulations requiring uncompensated care, community service, or access by minority/handicapped persons.
- c. **Unmet Needs to be Served by Applicant:** The applicant states that Neshoba is proposing a replacement facility to be located on the campus of its existing facility. Therefore, it will be serving the same patient population, including Medicare, Medicaid and medically indigent patients. The applicant states that the proposed facility will allow it to better meet the needs of patients in

its service area by (i) offering the efficient flow of patients through the facility, (ii) protecting against the spread of infectious diseases among patients, (iii) ensuring a pleasant and comfortable surrounding for the patients and their families, (iv) including 44 private patient rooms with private baths, (v) adding state-of-the-art health information technology, (vi) providing appropriate space for state-of-the-art radiology and laboratory services, respiratory and physical therapy departments, imaging, and intensive care/cardiac care units and pharmacy, (vii) including three operating/procedure rooms, (viii) increasing Neshoba's emergency room capacity to handle increased volume, and (ix) providing a helipad for emergency patients.

GR Criterion 7 – Information Requirement

Neshoba affirmed 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

Neshoba does not propose to add new services or beds. The applicant proposes to replace its current facility on the existing campus and reduce its set up and staffed beds from 82 to 44. The proposed replacement hospital facility is not expected to affect existing health services available in the service area.

The applicant avers that if Neshoba is prohibited from constructing the proposed replacement facility, the patients that Neshoba will continue to treat at its existing facility will suffer an adverse impact due to the lack of state-of-the-art facilities and equipment, and Neshoba's ability to recruit physicians will be more difficult.

GR Criterion 9 – Availability of Resources

Neshoba affirms it has a satisfactory staffing history at its existing facilities and states that Neshoba expects that few additional personnel will be required to staff the proposed facility because it is a replacement facility.

GR Criterion 10 – Relationship to Ancillary or Support Services

According to the applicant, Neshoba currently offers all of the necessary support and ancillary services to operate the hospital.

The applicant contends that there will be no change in costs as a result of this project.

GR Criterion 16 – Quality of Care

Neshoba County General Hospital is in substantial compliance with the Minimum Standards for the Operation of Mississippi Hospitals according to the Division of Health Facilities Licensure and Certification.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

Cost Item	Projected Cost	% of Total
Construction Cost - New	\$ 28,135,250	52.49%
Renovation Cost - Capital Improvements	-	0.00%
Fixed Equip Cost	1,536,917	2.87%
Non-Fixed Equip Cost	5,041,846	9.41%
Land Cost		0.00%
Site Prep Cost	1,902,500	3.55%
Fees - architectural, engineering, etc.	3,401,959	6.35%
Fees - legal and accounting	130,000	0.24%
Contingency Reserve	4,251,528	7.93%
Other - HUD and banking fees	6,658,188	12.42%
Capitalized Interest	2,538,500	4.74%
Other Cost	-	0.00%
Total Proposed Expenditures	\$ 53,596,688	100%

The project involves construction of a 99,881 sq. ft. replacement hospital facility at an estimated total cost of \$402 per sq. ft. The cost is above the high range of the projects listed in the Means Construction Cost Data, 2009 Data book (See Attachment 2).

B. Method of Financing

The applicant proposes to finance the proposed project with FHA Section 242 Insured Mortgage Financing of \$35,500,000, with a 6.7% interest rate for a 25-year term. The remaining \$18,096,688 will be financed with cash reserves.

C. Effect on Operating Cost

The applicant's three-year projections of revenues and expenses for the first three years of operation are provided in Attachment 1.

D. Cost to Medicaid/Medicare

The applicant's projection of cost to third party payors is as follows:

Patient Mix by Type Payer	Utilization Percentage (%)	First Year Revenue (\$)
Medicaid	18	\$16,617,007
Medicare	38	35,597,136
Commercial	16	15,474,309
Self Pay	15	14,263,601
Other	13	11,922,476
Total	100	\$93,874,529

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for review and comment. The Division estimates that increase cost to the Medicaid program will be \$129,050 in inpatient hospital services. The Division of Medicaid opposes the project.

VI. CONCLUSION AND RECOMMENDATION

The project is in substantial compliance with the criteria and standards for the construction, renovation, expansion, capital improvement, replacement of health care facilities, etc. as contained in the *FY 2010 State Health Plan*; the *Mississippi Certificate of Need Review Manual, revised September 1, 2009*; and all adopted rules, procedures, and plans of the Mississippi State Department of Health.

The Division of Health Planning and Resource Development recommends approval of this application submitted by Neshoba County General Hospital for the construction of a replacement hospital facility.

Attachment 1
Neshoba County General Hospital
Construction of a Replacement Hospital
Three-Year Projected Operating Statement (With Project)

	Year 1	Year 2	Year 3
Patient Revenue			
Inpatient Revenue	\$23,056,825	\$24,353,955	\$ 25,712,312
Outpatient Revenue	70,817,704	77,730,654	85,321,267
Total Patient Revenue	\$93,874,529	\$ 102,084,609	\$111,033,579
Deductions from Revenue			
Charity Care	\$ 5,118,518	\$ 5,617,216	\$ 6,165,151
Deductions from Revenue	<u>\$54,057,030</u>	<u>\$ 59,876,543</u>	<u>\$ 66,275,828</u>
Total Deductions	\$59,175,548	\$ 65,493,759	\$ 72,440,979
Net Patient Revenue	<u>\$34,698,981</u>	<u>\$ 36,590,850</u>	<u>\$ 38,592,600</u>
Other Operating Revenue	244,861	247,310	249,783
Net Revenue	<u>\$ 34,943,842</u>	<u>\$ 36,838,160</u>	<u>\$ 38,842,383</u>
Operating Expenses			
Salaries & Wages	\$17,058,433	\$17,971,309	\$ 18,914,983
Benefits	3,558,389	3,748,815	3,945,665
Supplies	2,021,738	2,152,693	2,292,744
Services	3,689,051	3,905,800	4,136,122
Lease	693,979	707,859	722,016
Depreciation	1,869,247	2,937,998	3,036,940
Interest	1,729,942	2,269,013	2,223,352
Other	2,954,414	3,107,847	3,222,657
Total Operating Expenses	<u>\$33,575,193</u>	<u>\$36,801,334</u>	<u>\$ 38,494,479</u>
Income (Loss) from Operations	\$ 1,368,649	\$ 36,826	\$ 347,904
Assumptions			
Inpatient Days	10,572	10,635	10,694
Outpatient Days	107,696	112,817	118,183
Total Patient Days	118,268	123,452	128,877
Occupancy Rate	34%	34%	39%
Charge per inpatient day	\$ 2,181	\$ 2,290	\$ 2,404
Charge per outpatient day	\$ 658	\$ 689	\$ 722
Cost per inpatient day	\$ 3,176	\$ 3,460	\$ 3,600
Cost per outpatient day	\$ 312	\$ 326	\$ 326

**Attachment 2
 Neshoba County General Hospital
 Construction of a Replacement Hospital Facility
 Computation of Construction and Renovation Cost**

Cost Component	Total	New Construction	Renovation
New Construction Cost	\$28,135,250	\$28,135,250	
Renovation Cost			\$0
Total Fixed Equipment Cost	\$1,536,917		
Total Non-Fixed Equipment Cost	\$5,041,846	\$0	
Land Cost	\$0	\$0	
Site Preparation Cost	\$1,902,500	\$1,902,500	
<i>Fees (Architectural, Consultant, etc.)</i>	\$3,401,959	\$3,401,959	\$0
<i>Contingency Reserve</i>	\$4,251,528	\$4,251,528	\$0
<i>Capitalized Interest</i>	\$2,538,500	\$2,538,500	\$0
<i>Other</i>	\$6,788,188		
Total Proposed Capital Expenditure	\$53,596,688	\$40,229,737	\$0
Square Footage	99,881	99,881	
<i>Allocation Percent</i>		100.00%	0.00%
Costs Less Land, Non-Fixed Eqt., Other	\$48,554,842	\$40,229,737	\$0
Cost Per Square Foot	\$486.13	\$402.78	#DIV/0!

Attachment 2A
 Construction Projects Reviewed by the Department
 2008 – 2009

Project	Capital Expenditure	Sq. Ft.	Cost/Sq. Ft.
HG-CRF-0808-027 King's Daughters Hospital Construction/Replacement Project	\$32,06,300	86,000	\$297.67
HG-CB-1008-041 Rush Medical Foundation d/b/a John C. Stennis Memorial Hospital Construction of a 25-Bed Hospital	\$13,623,283	28,999	\$328.14
HG-RLS-1208-045 St. Dominic-Jackson Memorial Hosp. Relocation of 71 Acute Care Beds	\$121,590,696	177,631	\$410.54
HG-RC-0309-005 Oktibbeha County Hospital New Construction/Renovation	\$32,347,390	71,400	\$327.59