

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

CON REVIEW HG-CO-0709-021

SOUTH CENTRAL REGIONAL MEDICAL CENTER

COST OVERRUN TO CON NO. R-0667

(SURGICAL CCU AND EMERGENCY ROOM RENOVATION/ADDITION)

APPROVED CAPITAL EXPENDITURE: \$12,600,322

ADDITIONAL CAPITAL EXPENDITURE: \$ 4,899,678

REVISED CAPITAL EXPENDITURE: \$17,500,000

LOCATION: LAUREL, JONES COUNTY, MISSISSIPPI

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

South Central Regional Medical Center (SCRMC) is a short-term, general acute care, non-profit hospital owned by Jones County. The hospital is governed by a six-member Board of Trustees appointed by the Jones County Board of Supervisors.

The facility is licensed for 285 acute care beds, including 10 adult chemical dependency beds.

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

**South Central Regional Medical Center
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2006	55.03	5.65	15.65
2007	53.41	5.68	16.26
2008	44.84	5.12	18.45

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

B. Project Background

South Central Regional Medical Center obtained Certificate of Need No. R-0667, effective December 16, 2004, for surgical CCU and emergency room renovation, and on May 27, 2009, South Central Regional Medical Center was approved for a six-month extension on CON No. R-0667. This extension period will terminate December 16, 2009.

The original project involved a total of 82,164 square feet of space to include 49,181 square feet of new construction and 32,983 square feet of renovated space which involve the following departments: surgery department, emergency department, ICU/CCU shell and helipad provisions, and emergency canopy and parking.

C. Project Description

South Central Regional Medical Center now requests Certificate of Need authority for a cost overrun to its CON No. R-0667. South Central Regional Medical Center asserts that the cost overrun is necessary because new construction capital expenditure for the original project has both increased and decreased through some changes in the project. In March, 2005 the original project was initially bid. The submitted bids were all substantially over the anticipated capital construction cost. As a result, SCRMC revised the project to eliminate the renovation and construction of the hospital's ER in an effort to rightly size the project in relation to the more immediate needs of South Central Regional Medical Center. The applicant reduced new construction from 49,181 square feet to 33,925 square feet.

The applicant asserts that the renovation portions of the existing surgical suite will consist of 17,800 square feet, a decrease from the original renovation of 32,983 square feet. The renovated space became operating rooms, a portion of the sub-sterile hallway, pre-operative holding, PACU, staff lounges, and offices. In those spaces, additional detailed planning after approval of the original CON application revealed needs involving additional and/or revised renovations. In addition, changes in the delivery of surgical services and in the volumes of surgical services at SCRMC since 2004 require reconfiguration of all of the surgery suites to accommodate the general need for operating rooms to be larger to house the greater amount of technological equipment required in the OR's for new or modified surgery procedures. The applicant asserts that most of the equipment changes and increases were necessitated by technologic changes, advances and changes in diagnostic, therapeutic, and surgical methodologies since 2004.

According to South Central Regional Medical Center, the new construction portion of the original project is 100 percent complete. The work to complete the backfill renovation is approximately 99 percent complete. The sum of \$15,799,765 in construction capital expenditures had been committed to date.

According to the applicant, the capital expenditure approved in the original CON is \$12,600,322 and the additional costs for this cost overrun proposal are \$4,899,678, resulting in a revised capital expenditure of approximately \$17,500,000 for the project. This cost overrun project does not change the scope of the original project.

II. TYPE OF REVIEW REQUIRED

The original project was reviewed under the applicable statutory requirements of Section 41-7-191, subparagraph (1) (j), Mississippi Code of 1972, as amended.

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 December 7, 2009.

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

A. State Health Plan

The original project was in substantial compliance with the *FY 2005 State Health Plan*, in effect at the time the original application was submitted. This cost overrun project continues to be in substantial compliance with the *State Health Plan*.

B. General Review Criteria

The original project was in substantial compliance with the *Certificate of Need Review Manual, 2000 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 *Manual*.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

	<u>Approved Capital Expenditure</u>	<u>Revised Capital Expenditure</u>	<u>Increase (Decrease)</u>
New Construction	\$4,984,380	\$6,879,225	\$1,894,845
Renovation	2,466,180	3,480,696	1,014,516
Capital Improvements	440,000	501,600	61,600
Land	0	0	0
Site Work	0	0	0
Fixed Equipment**	0	0	0
Non-Fixed Equipment	2,000,000	2,770,138	770,138
Architectural/Engineering Fees	473,842	600,000	126,158
Contingency Reserve	394,520	600,000	205,480
Capitalized Interest	1,841,400	2,668,341	826,941
Total	<u>\$12,600,322</u>	<u>\$17,500,000</u>	<u>\$4,899,678</u>

As previously mentioned, the capital expenditure approved in the original CON is \$12,600,322 and the additional costs for this cost overrun proposal are \$4,899,678, resulting in a revised capital expenditure of approximately \$17,500,000 for the project. This cost overrun project does not change the scope of the original project.

**According to the applicant, fixed equipment is Included in the project's new construction cost.

B. Method of Financing

The applicant asserts that it will use funds from the bond issue to finance the proposed cost overrun.

C. Effect on Operating Cost

According to the applicant, the operating statement changed from the original project. See Attachment 1 for the three year projected operating statement.

D. Cost to Medicare/Medicaid

According to the applicant, the proposed project involves the reconfiguring of the delivery of existing services provided by SCRMC and prospectively determined reimbursement rates will not change regardless of the cost of providing services as a result of this cost overrun project.

V. RECOMMENDATION OF OTHER AFFECTED AGENCIES

The Division of Medicaid estimates that the increased annual cost to Medicaid for the proposed project will be \$132,193 in inpatient services, and that outpatient services will be paid as outlined in the *Medicaid State Plan*. The Division of Medicaid opposes this application.

VI. CONCLUSIONS AND RECOMMENDATION

This project continues to be in substantial compliance with the overall objectives of the FY 2005 *State Health Plan; Certificate of Need Review Manual, Revised 2000*; and all adopted rules, procedures, and plans of the Mississippi State Department of Health in effect at the time of approval.

The Division of Health Planning and Resource Development recommends approval of the application submitted by South Central Regional Medical Center for a cost overrun to CON #R-0667 (Surgical CCU and Emergency Room Renovation/Addition).

**Attachment 1
 South Central Regional Medical Center
 Surgical Renovation/Expansion Project
 HG-CO-0709-021**

	Year 1	Year 2	Year 3
Inpatient Revenue			
Outpatient Revenue			
Total Patient Revenue	\$ 30,143,517	\$ 31,650,693	\$ 33,233,227
Deductions from Revenue			
Contractual Adjustments			
Total Revenue Deductions	<u>\$ 14,450,000</u>	<u>\$ 14,389,000</u>	<u>\$ 15,108,450</u>
Other Operating Revenue	500,000	525,000	551,250
Net Revenue	<u>\$ 16,193,517</u>	<u>\$ 17,786,693</u>	<u>\$ 18,676,027</u>
Operating Expenses			
Salaries & Wages	\$ 5,981,342	\$6,280,409	\$6,594,430
Benefits			
Professional Expenses	174,252	182,965	192,113
Commodities/Supplies	8,423,670	8,844,854	9,287,096
Interest	440,000	462,000	485,100
Depreciation	401,968	1,386,896	1,386,896
Other	176,147	184,954	194,202
Total Operating Expenses	<u>\$ 15,597,379</u>	<u>\$ 17,342,078</u>	<u>\$ 18,139,837</u>
Income (Loss) from Operations	<u>\$ 596,138</u>	<u>\$ 444,615</u>	<u>\$ 536,190</u>