

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
FEBRUARY 2013**

**CON REVIEW: HG-A-1212-023
NESHOPA COUNTY GENERAL HOSPITAL
AMENDMENT TO CON # R-0799
(CONSTRUCTION OF A REPLACEMENT HOSPITAL)
APPROVED CAPITAL EXPENDITURE: \$53,596,688
REVISED CAPITAL EXPENDITURE: \$31,000,000
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. Since the initial CON application, new members replaced persons who held the following offices at NCGH: Chief Executive Officer; Chief Financial Officer; Board of Trustees for Districts 3 and 5 (one for each District); and Board Chairman.

Neshoba County General Hospital is certified to participate in the Medicaid and Medicare programs. The facility operates a 10-bed swing-bed program, a 10-bed gero-psych program, and also owns/operates a 148-bed long term care facility, Neshoba County Nursing Home.

B. Project Background

Neshoba County General Hospital obtained Certificate of Need (“CON”) # R-0799 for the Construction of a Replacement Hospital. The effective date of the CON was December 17, 2009, with an expiration of December 17, 2010.

The certificate authorized NCGH to construct a replacement facility located on a seven-acre parcel of land on the southeast corner of NCGH’s current campus. The location would allow the hospital to remain close to its nursing home and adjacent office building to permit NCGH to create its vision for a comprehensive healthcare campus.

The replacement facility was scheduled to be a two-story building consisting of 99,881 square feet that would be licensed for 44 general, acute care hospital beds and would be connected to the existing nursing home with a connecting corridor.

The first floor of the facility would have been approximately 71,831 square feet which would have included 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 would have consisted of 28,050 square feet and would have included 40 medical/surgical patient beds and 4 acuity adaptable beds.

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

Additionally, the original project was designed to incorporate space for future bed and departmental expansion. Also, the original project proposed to continue to utilize 10 geriatric psychiatric beds at the existing hospital upon completion of construction of the replacement hospital. However, the hospital planned to voluntarily de-licensed 28 of the remaining beds pursuant to Miss. Code Ann. §41-7-191 (l)(c) and place them in abeyance.

The total capital expenditure for the proposed project was \$53,596,688 and entailed constructing approximately 99,881 square feet of space at a cost of \$402 per square foot. The applicant estimated that the total cost for fixed equipment would be \$1,536,917 and \$5,041,846 for non-fixed equipment.

Neshoba County General Hospital anticipated that the project would require 7.4 full time equivalent (FTE) physicians and 23.1 FTE non-physician personnel at an estimated cost of \$1,747,372 the first year. The original site was approved by the Division of Licensure and Certification.

Briefly, on December 8, 2010, the project was granted an extension which extended the CON until June 17, 2011. On June 2, 2011, the project was granted its second extension and notified that an amendment is required for the change in scope on the project. The second extension expired on December 17, 2011. The project received approval of its third extension request which expired on June 17, 2012. The Department approved the hospital's fourth extension request on June 11, 2012, which extended the CON until December 17, 2012. On December 3, 2012 NCGH submitted an application for an amendment to CON R-0799.

C. Project Description

On December 19, 2009, the Mississippi State Department of Health granted CON authority to Neshoba County General Hospital to construct a replacement hospital in Philadelphia, Mississippi (CON No. R-0799). Neshoba County General Hospital submitted a CON application on December 3, 2012 and now requests Certificate of Need authority to renovate and add square footage to its existing hospital facility by amending CON No. R-0799.

As mentioned previously, the applicant states that shortly after receiving CON approval, NCGH's CEO and CFO changed. Neshoba's new officers reconsidered the financial feasibility of the project and decided to downsize the

project approved under CON No. R-0799. Instead of constructing a new replacement hospital, NCGH determined that the most feasible option would be to renovate its existing facility and construct an addition to the hospital. As a note, a neighboring landowner provided NCGH with an easement on a 2.5 acre parcel in the rear of the facility so that NCGH staff could have space for parking and to deliver supplies at the hospital. The applicant asserts that NCGH purchased the 2.5 acre land from the owner for \$200,000 (less than the appraisal value) in March 2012 to have permanent ownership of the easement property.

The proposed amendment project will be performed in two phases. On January 2, 2013 through March 7 2013, the Department received clarification and corrections concerning Phase I and Phase II of the project. The total square footage for the proposed project is 83,531.

Phase I- New Construction

Phase 1 will consist of 52,600 square feet of new construction and 8,931 square feet of renovation to the existing facility. The addition will be connected to the existing hospital. The new construction began January 2012 and is expected to be completed in June of 2013. The removal of an entrance canopy; creation of a connector hallway from the addition through the existing hospital to the nursing home and cafeteria service will also be a part of Phase I. The new addition will contain the following departments and services:

- ⊕ Emergency department with two trauma rooms, two fast track rooms, five exam rooms, five treatment rooms and a chemical exposure decontamination suite;
- ⊕ A new intensive care unit (ICU) with four ICU patient rooms;
- ⊕ An imaging suite with a radiology room, radiology fluoroscopy room, a CT room, a nuclear medicine room, a mammography suite, two ultrasound rooms, a bone density room and an MRI suite;
- ⊕ A new pharmacy with a sterile production suite;
- ⊕ Surgery suite that includes a general surgery room, an orthopedic surgery room, an endoscopy room, a cystoscopy room, a prep and recovery room, and a central sterile/decontamination suite;
- ⊕ Twenty-five new accessible patient rooms with two nursing units. One of the patient rooms is negative pressure with an anteroom;
- ⊕ Admissions Department, including a lobby, outpatient waiting room, emergency department waiting room, and a breast care waiting room.

The connection points of the addition will be at ground level and at the second floor. Also, an exterior park will be created and located between the new and existing buildings. The applicant states NCGH's building design creates future space for a 15,000 square feet addition and illustrates where the addition will be located if an addition is required. The applicant asserts that 15,000 square feet is not included in the 52,600 square feet for new construction nor is there a projected cost per square feet for the future space. A back-up generator will be joined to the full addition in order to provide a power source to the building in case of an emergency.

Phase 2-Renovation

After the new addition is occupied, NCGH will renovate portions of the existing hospital and the following areas will be renovated:

- ⊕ The former emergency department will be converted into a new laboratory
- ⊕ The former ICU will be converted to respiratory therapy and a gift shop
- ⊕ The former laboratory and respiratory therapy departments will be converted into education classrooms

- ⊕ The former second floor acute care area will be renovated to house 10 acute care private rooms
- ⊕ The former surgery area will be converted into office space (health information management)
- ⊕ Building plumbing will be replaced
- ⊕ The former health information management will be converted into rehab dept.
- ⊕ A former storage/mechanical area will be converted to office space

Because NCGH completed work under the initial CON for the Construction of a Replacement Hospital, the applicant asserts that 36.48 percent of the project was complete by November 30, 2012, before the December 3, 2012 submittal of the application. Updated information was received on March 7, 2013 and NCGH affirms that 45.86 percent of the project was complete by February 28, 2013. The amounts spent relating to both time periods were 11,307,946.04 and \$14,216,662, respectively.

The applicant included audited Financial Statements and Additional Information dated September 30, 2011 and a Balance Sheet for month-end August 30, 2012. The total capital expenditure for the initial project was \$53,596,688 and the revised capital expenditure was reduced to \$31,000,000. Also, the applicant will purchase radiology (imaging) equipment, a GE Proteus XR/a and a GE# Precision 500D at a cost of \$340,000 and \$360,000, respectively,.

The applicant states that NCGH will incur the following costs associated with Phase 1 of the project: 52,600 square feet of space for new construction will cost \$230.79 per square foot and renovating 8,931 square feet will cost \$136.83.

The applicant estimates that the total cost for fixed equipment will be \$1,536,917 and \$5,041,846 for non-fixed equipment.

Since some of the documents relating to the architect's work are large, NCGH included a compact disk (CD) in the December 3, 2012 application marked as Exhibit 3. It contains schematics and specifications provided by Foill Wyatt Architects and Planners, PLLC (Foill Wyatt). The applicant asserts that NCGH submitted a Six Months Extension/Progress Reports with architectural plans and specifications to the Department on November 14, 2011, and May 15, 2012 (Exhibit C). Neshoba County General Hospital affirms that both filings and Exhibit 3 in the December 3, 2012, CON amendment application are all the same architectural plans.

The original site was approved by the Division of Licensure and Certification. Based on the clarification received from NCGH and Foill Wyatt on February 27, 2013, NCGH confirms that Mississippi State Department of Health, Division of Health Facilities approved the correction (addition and renovation plans) to NCGH's initial plans on November 15, 2011 and approved NCGH to commence construction.

Initially, Neshoba County General Hospital anticipated that the project would require 7.4 full time equivalent (FTE) physicians and 23.1 FTE non-physician personnel at an estimated cost of \$1,747,372 the first year; however, the applicant states that it did not hire the staff listed in the original project and does not expect to hire any new staff associated with the CON amendment..

The applicant states that NCGH will continue its transfer agreements with 14 healthcare providers and provided a Resolution from the Board of Trustees authorizing continued participation in the Statewide Trauma System.

To fund the project, NCGH will use various funding sources to finance the \$31,000,000 proposed project (see listing under *B. Method of Financing* within this staff analysis). Upon CON approval, the applicant anticipates the proposed project to be complete by July 2014.

II. TYPE OF REVIEW REQUIRED

The Mississippi State Department of Health reviewed the original project 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. Thus, the original project requested CON authority for the relocation and replacement of a health care facility within 5,280 feet of the existing facility, with a capital expenditure of \$2,000,000 or more.

The State Health Officer reviews all projects for amendment and 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 March 28, 2013.

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

A. State Health Plan (SHP)

The *FY 2010 Mississippi State Health Plan (MSHP)* was in effect at the time the original application was submitted to the Department and the original application was found to be in substantial compliance with the *FY 2010 MSHP*. The amendment project continues to be in substantial compliance with the *FY 2010 Mississippi State Health Plan*.

B. General Review (GR) Criteria

The *Certificate of Need Review Manual, 2009 Revision (CON Review Manual, 2009)* was in effect at the time the original application was submitted to the Department. The original project was in substantial compliance with *the CON Review Manual, 2009* and the CON amendment application continues to be in compliance with applicable General Review Criteria and Standards contained in the *CON Review Manual, 2009*.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

	Original Approved Amount	Revised Amount	Increase/ (Decrease)
1. New Construction Cost	\$28,135,250	\$12,500,000	(\$15,635,250)
2. Construction/Renovation ♦	-	10,250,000	10,250,000
3. Land	-	200,000	200,000
4. Site Work	1,902,500	2,200,000	297,500
5. Fixed Equipment	1,536,917	700,000	(836,917)
6. Non-Fixed Equipment	5,041,846	2,800,000	(2,241,846)
7. Contingency	4,251,528	630,000	(3,621,528)
8. Fees (Architectural, Consultant, etc)*	3,401,959	1,620,000	(1,781,959)
9. Capitalized Interest	2,538,500	-	(2,538,500)
10. Capital Improvement	-	-	-
11. Other (HUD and Banking Fees)	6,658,188	-	(6,658,188)
12. Legal and Accounting Fees	130,000	100,000	(30,000)
Total Capital Expenditure	\$53,596,688	\$31,000,000	(\$22,596,688)

The above table represents the reduction in capital expenditure by NCGH and reasons for the decrease have been previously addressed within the staff analysis. The applicant further explains that new construction relating to adding on to the existing facility is \$12,500,000 and affirms that the cost is \$15,635,250 less than what is shown in the original replacement project. Also, NCGH will renovate its present facility at a cost of \$10,250,000, incur a cost of \$2,200,000 to complete site work, and has paid \$200,000 to purchase property that was designated as easement in the back of the facility.

Since the initial CON project was approved, NCGH made some progress towards completion of the project before the approved project changed in scope. The applicant reports that the capital expenditure made to date is \$11,307,946.04 and affirms that the completion percentage equates to 25.67 percent.

As a note, NCGH states that \$3,401,348 was spent on architectural fees and other expenses in connection to the initial CON project and the amount is shown in the ledger under Exhibit 6 of the CON amendment application. The amount is included in the construction/renovation amount of \$10,250,000 listed in the above revised capital expenditure summary. Thus, NCGH asserts that the \$3,401,348 is not in association with the proposed amendment project and should not be factored in the expansion and renovation cost per square footage.

The total square footage for the proposed project is 83,531. To construct a 52,600 square foot addition to the facility, NCGH states it will cost \$230.79 per square foot. According to the *figures in the 2011 RSMeans Construction Cost publication*, the low, median, and high range cost for an acute care facility of this size is \$184, 230, and \$315 per square foot, respectively. Based on the low, median, and high range listed in *2012 RSMeans Construction Cost publication*, staff affirms it will cost \$196, 246, and \$335 per square foot for new construction for an acute care facility of this size. As stated previously, 15,000 square feet (future space) is excluded from the total square feet.

Neshoba asserts it will renovate 8,931 square feet in the existing hospital at a cost of \$136.83 per square foot. Also, 22,000 square feet will be renovated relating to the list shown under Project Description at a cost of \$269.94 square feet. According to the *2012 Means Construction Cost Data* publication, the median to high construction cost range for a hospital of this size is \$196 to \$335 per square foot; however, the book does not list costs for renovation projects.

B. Method of Financing

Since the capital expenditure was revised and reduced from \$53,596,688 to \$31,000,000, NCGH asserts that it will use various funding sources to finance the proposed amendment project. The following lists a breakdown of funding sources and the cost for each phase of the proposed project:

Phase I Cost (construction of an addition to existing facility) - \$19,000,000

\$10,800,000 (Cash Reserves)
4,000,000 (Capital Access Program Loan)
4,200,000 (New Markets Tax Credit Program)

Phase II Cost (renovation of existing facility) - \$12,000,000

\$ 4,400,000 (Bank Loan)
1,000,000 (Rural Economic Development Loan)
6,600,000 (Cash Reserves)

C. Effect on Operating Cost

The revised cost for the first full year of operation after completion of the proposed project is shown within this staff analysis (see Attachment 1).

D. Cost to Medicaid/Medicare

As stated previously, NCGH does not anticipate an increase in FTEs associated with the proposed amendment. The applicant states that the project is funded with only the volumes of the hospital and rates are expected to increase by 4% based on factors not linked to the project. As a matter of fact, NCGH asserts that the rate would have increased by the amount listed even if Neshoba did not renovate and expand its existing facility. Neshoba County General Hospital affirms that an effect on Medicaid patients, Medicare patients or other payors as a result of this amendment project will be minor.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided an opportunity to review and comment on this project. Based on their analysis, the Division states that effective September 1, 2012, the Division changed the methodology by which it reimburses outpatient services so that the cost incurred, subsequent to that date, will no longer affect outpatient payments.

Effective October 1, 2012, the Division changed the methodology by which it reimburses inpatient services so that the cost incurred, subsequent to that date, will only affect cost outlier payments. The estimated increase in cost outlier payments resulting from this project cannot be determined at this time. The Division of Medicaid opposes this project.

VI. CONCLUSION AND RECOMMENDATION

This project continues to be in substantial compliance with the overall objectives of the *FY 2010 Mississippi State Health Plan; Certificate of Need Review Manual, Revision 2009*; 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 amendment application submitted by Neshoba County General Hospital to construct an addition to its existing facility and renovate the present hospital by amending CON No. R-0799 (-construction of a replacement hospital for NCGH).

Attachment I
Neshoba County General Hospital
Amendment to CON # R-0799

Revised Projected Operating Statement
(First Full Year of Operation after Completion of the Project)

	<u>AMOUNT</u>
Revenue	
Inpatient Care Revenue	\$33,558,484
Outpatient Revenue	\$62,556,038
Gross Patient Care Revenue	\$96,114,522
Charity Care	\$1,863,056
Deductions from Revenue	<u>\$53,614,686</u>
Net Patient Revenue	\$40,636,780
Other Operating Revenue	<u>\$1,236,000</u>
Total Operating Revenue	\$41,872,780
Operating Expense	
Salaries	\$20,472,000
Benefits	\$3,644,016
Supplies	\$4,709,612
Services	\$7,045,290
Lease	\$956,279
Depreciation	\$2,851,000
Interest	\$290,000
Other	\$1,072,583
Total Operating Expense	\$41,040,780
Net Operating Income (Loss)	\$832,000
Inpatient Days	65,440
Charges per Inpatient Day	\$1,469
Cost per Inpatient Day	\$ 627.15