

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

**CON REVIEW: HG-CO-0513-004
GREENWOOD LEFLORE HOSPITAL
COST OVERRUN FOR CON REVIEW: HG-RE-0211-002; R-0833
(REPLACEMENT OF CENTRAL PLANT EQUIPMENT)
ORIGINAL CAPITAL EXPENDITURE: \$10,767,909
ADDITIONAL CAPITAL EXPENDITURE: \$1,200,937
REVISED CAPITAL EXPENDITURE: \$11,968,846
LOCATION: GREENWOOD, LEFLORE COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Greenwood Leflore Hospital (Greenwood) is a 208-bed public, short term, general acute care, hospital located in Greenwood, Leflore County, Mississippi. The licensed bed complement of the hospital consists of 188 medical/surgical beds, and 20 rehabilitation beds. Greenwood is governed by a five-member Board of Hospital Commissioners, and is accredited by the Joint Commission (formerly the Joint Commission on Accreditation of Healthcare Organizations).

B. Project Background

Greenwood Leflore Hospital was granted CON #R-0833, with an effective date of June 30, 2011 and an expiration date of June 30, 2012 to replace its central plant equipment.

The project, as approved by the Department, authorized Greenwood to renovate 6,100 square feet of space and involved an upgrade to the Hospital's physical plant facilities through the replacement of its central plant equipment, including chillers, boilers, and related equipment items.

The total approved capital expenditure for the project was \$10,767,909 which would be financed with a bank loan in addition to cash reserves of the hospital.

B. Project Description

Greenwood requests CON authority for a Cost Overrun to CON No. R-0833. The applicant states that the most significant of the additional expenses associated with this project relate to increased renovation costs, unforeseen renovation, and equipment expenditures. In addition, the applicant states that the following issues contributed to the cost overrun:

- Unanticipated issues arose with respect to the demolition phase of the project;
- Overall, the bids for the project came in higher than anticipated;

- Certain licensure standards were required for those upgrades once the Mississippi State Department of Health Licensure Division reviewed the plans for the project;
- The project is being completed in three phases in order to allow for uninterrupted continued hospital operations through the phases;
- Simple logistics and phasing of the project required a longer period for the demolition and renovation than originally anticipated; and
- Additional equipment items were required to be purchased in lieu of using current equipment and fixtures.

The applicant asserts that the lowest bid was accepted for the project and the renovation required for the project is 95% complete.

II. TYPE OF REVIEW REQUIRED

The Mississippi State Department of Health reviewed the original project, for the replacement of central plant equipment, in accordance with Section 41-7-191 subparagraph (1)(j), Mississippi Code of 1972, Annotated, as amended, and duly adopted rules, procedures, plans, criteria and standards of the Mississippi State Department of Health.

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 August 1, 2013.

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

A. State Health Plan (SHP)

The *FY 2011 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 2011 MSHP*. The cost overrun project continues to be in substantial compliance with the *FY 2011 MSHP*.

B. General Review (GR) Criteria

The *Certificate of Need Review Manual, 2010 Revision (CON Review Manual, 2010)* 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, 2010* and the CON cost overrun application continues to be in compliance with applicable General Review Criteria and Standards contained in the *CON Review Manual, 2010*.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

	Original Approved Amount	Revised Amount	Increase/ (Decrease)
1. New Construction Cost	\$0	\$ 0	\$ 0
2. Construction/Renovation	\$1,343,554	3,916,190	\$2,572,636
3. Land	0	0	0
4. Site Work	0	0	0
5. Fixed Equipment	\$6,661,858	\$6,402,806	\$(259,052)
6. Non-Fixed Equipment	0	0	0
7. Contingency	816,000	40,000	(776,000)
8. Fees (Architectural, Consultant, etc)	1,276,497	890,730	(385,767)
9. Capitalized Interest	670,000	719,120	49,120
10. Capital Improvement	0	0	0
Total Capital Expenditure	\$10,767,909	\$11,968,846	\$1,200,937

The above table represents an 11.15% increase in capital expenditure by Greenwood Leflore Hospital. The applicant proposes to renovate 6,100 square feet of space at an estimated cost of \$1,962 per square foot. The *RS Means Building Construction Cost Data* does not compare projects of renovation. The applicant states that the renovation of the project is 95% complete. The remaining items required for the project's completion are testing, balancing, and commissioning.

B. Method of Financing

According to the applicant, the project was funded by a bank loan in addition to cash reserves of the Hospital.

C. Effect on Operating Cost

As stated in the original Staff Analysis, published May 2011, the applicant asserts that this project's only effect on operating cost would be interest and depreciation. Revised interest for the project is projected at \$266,560 the first year, \$344,308 the second year and \$331,195 the third year. Depreciation is projected at \$598,442.31 per year for 20 years using the Straight Line Method.

D. Cost to Medicaid/Medicare

Greenwood asserts that this cost overrun will not have any impact on Medicaid or Medicare patients, or patients of other payors. The applicant asserts that the capital expenditure increase relating to the cost overrun is a modest amount and will result in only a nominal increase in annual depreciation expense. This increase in capital expenditure will not have any impact on Hospital charges or payments for inpatient and outpatient services. The financial impact to all payor sources will be neutral as the capital expenditure will not result in an increased cost per day.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

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

In addition, 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. Based on the Division of Medicaid's analysis, 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 2011 Mississippi State Health Plan; Certificate of Need Review Manual, Revision 2010*; and all adopted rules, procedures, and plans of the Mississippi State Department of Health in effect at the time of approval.

Therefore, the Division of Health Planning and Resource Development recommends approval of the application submitted by Greenwood Leflore Hospital for a cost overrun to CON No. R-0833. This cost overrun will allow Greenwood to increase the authorized capital expenditure by \$1,200,937 for the replacement of its central plant equipment.

**Attachment 2
 Greenwood Leflore Hospital
 Central Plant Renovation
 Computation of Renovation Cost**

Cost Component	Total	New Construction	Renovation
New Construction Cost	\$0		\$0
Renovation Cost	\$3,916,190		\$3,916,910
Total Fixed Equipment Cost	\$6,402,806		\$6,402,806
Total Non-Fixed Equipment Cost	0		0
Land Cost	\$0		\$0
Site Preparation Cost	\$0		\$0
<i>Fees (Architectural, Consultant, etc.)</i>	\$890,730		\$890,730
<i>Contingency Reserve</i>	\$40,000		\$40,000
<i>Capitalized Interest</i>	\$719,120		\$719,120
<i>Other</i>	\$0		\$0
Total Proposed Capital Expenditure	\$11,968,846		\$11,968,846
Square Footage	6,100		6,100
<i>Allocation Percent</i>			100%
Costs Less Land, Non-Fixed Eqt., Other			
Cost Per Square Foot	\$1,962		\$1,962
Cost per Bed (n=24)	NA		