

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
MAY 2016**

**CON REVIEW: HG-CO-1015-021
NORTH MISSISSIPPI MEDICAL CENTER
COST OVERRUN TO CON R-0804 (HG-RC-1109-030)
(WEST BEDTOWER EXPANSION AND RENOVATION)
ORIGINAL CAPITAL EXPENDITURE: \$55,103,273
ADDITIONAL CAPITAL EXPENDITURE: \$3,940,979
REVISED CAPITAL EXPENDITURE: \$59,044,252
LOCATION: TUPELO, LEE COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

North Mississippi Medical Center is a 640-bed general acute care, short-term medical/surgical hospital located in Tupelo, Lee County, Mississippi. The licensed bed complement of the hospital consists of 544 medical/surgical beds, 30 rehabilitation beds, 33 chemical dependency beds, and 33 psychiatric beds. In 2014, North Mississippi Medical Center had a 62.32% occupancy rate of its medical/surgical beds. The facility is governed by a 17-member Board of Directors and is accredited by the Joint Commission.

B. Project Background

North Mississippi Medical Center (NMMC) was granted CON #R-0804, with an effective date of March 25, 2010 and an expiration date of March 25, 2011 to expand and renovate its west bed-tower.

The project involved adding approximately 137,033 square feet of new construction and completely renovating the existing 69,710 square feet west bed-tower.

The total approved capital expenditure for the project was \$55,103,273, which was to be funded by a revenue bond issue.

B. Project Description

North Mississippi Medical Center requests CON authority for a Cost Overrun of \$3,940,979 to CON No. R-0804. This represents an approximate increase of 7% over the approved \$55,103,273 capital expenditure. According to the applicant, the cost overrun is the end result of multiple changes resulting from actual cost compared to estimated cost.

As shown in the Expenditure Summary section below, the most significant changes are as follows;

- New construction (decrease of \$4,052,130): The applicant submits that the reduction of cost was the result of careful planning, favorable material pricing and a favorable time period.
- Renovation (increase of \$1,832,681): Higher cost than expected resulted from unexpected building conditions, project timing/phasing, and scope of work clarification recognizing this component of the project involved complete internal demolition and rebuilding to match the initial expansion phase.
- Contingency (reduction of \$2,316,320): Essentially, the contingency (for project “unknowns”) was absorbed through the project as the scope of work became more clearly defined.
- Owner Furnished Equipment (increase of \$4,806,862): This expense category was developed during the project to recognize material and equipment used in the completion of project work directly paid by the owner rather than thru a construction contractor. This approach (according to the applicant) saved the owner significant expense resulting from elimination of contractor mark-up, favorable NMMC product pricing and flexibility.
- Capitalized Interest (increase of \$3,775,944): A charge to reflect Capitalized Interest was not identified in the initial CON project.

The applicant indicates that the project is 100% complete as of September 2015.

II. TYPE OF REVIEW REQUIRED

The Mississippi State Department of Health reviewed the original project, for the construction, renovation, expansion, or capital expenditure in excess of \$2,000,000, 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 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 May 31, 2016.

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 cost overrun project continues to be in substantial compliance with the *FY 2015 MSHP*.

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 cost overrun application continues to be in compliance with applicable General Review Criteria and Standards contained in the *CON Review Manual, 2011*.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

	Original Approved Amount	Revised Amount	Increase/ (Decrease)
1. New Construction Cost	\$32,578,968	\$ 28,526,838	\$ (4,052,130)
2. Construction/Renovation	\$13,747,522	\$15,580,203	\$1,832,681
3. Land	0	0	0
4. Site Work	0	0	0
5. Fixed Equipment	\$0	\$0	\$0
6. Non-Fixed Equipment	\$2,224,600	\$2,114,065	\$(110,535)
7. Contingency	\$2,316,320	0	\$(2,316,320)
8. Fees (Architectural, Consultant, etc)	\$2,432,141	\$2,625,000	\$192,859
9. Owner Furnished Equipment	0	\$4,806,862	\$4,806,862
10. Furnishings	\$1,803,722	\$1,615,340	\$(188,382)
10. Capitalized Interest	0	\$3,775,944	\$3,775,944
Total Capital Expenditure	\$55,103,273	\$59,044,252	\$3,940,979

The above table represents approximately 7% increase in capital expenditure by NMMC. The applicant proposed to construct 137,033 square feet of new space and renovate 69,710 square feet of space. The new construction cost of \$239.14 per square foot compares favorably with projects listed in the 2015 *RSMMeans Building Construction Cost Data*. Hospital projects listed in the publication range from a low of \$206 per square foot to \$355 per square foot. The publication does not compare projects of renovation. See Attachment 1 for computation of cost per square foot for new construction and renovation.

B. Method of Financing

According to the applicant, the project was funded through a revenue bond issue. The application contains documentation for Serial Bonds at 5%, 2034 Term Bond at 4.75%, and a 2039 Term Bond at 5%, totaling \$71,630,000.

C. Effect on Operating Cost

The project is not revenue producing. The applicant indicates that the only expenses affecting the project are depreciation and interest cost. Revised depreciation is \$4,101,804 and revised interest is \$2,733,530 for a total net operating income of \$(6,935,334). According to the Consolidated Balance Sheet contained the application for September 2015, the applicant had sufficient resources to sustain the loss.

D. Cost to Medicaid/Medicare

The applicant projects the cost to third party payors will be as follows:

Payor Mix	Utilization Percentage (%)	First Year Revenue (\$)
Medicare	50	\$ 3,390,326
Medicaid	9	615,180
Commercial & Other	34	2,310,343
Self Pay	7	519,485
Total	100	\$ 6,835,334

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.

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 2015 Mississippi State Health Plan; Certificate of Need Review Manual, Revision 2011*; 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 North Mississippi Medical Center for a cost overrun to CON No. R-0804. This cost overrun will allow NMMC to increase the authorized capital expenditure by \$3,940,979 for the West Bed-tower Expansion and Renovation project.

Attachment 1
North Mississippi Medical Center
West Bed-tower Expansion and Renovation
Computation of Construction/Renovation Cost

Cost Component	Total	New Construction	Renovation
New Construction Cost	\$28,526,838	\$28,526,838	
Renovation Cost	\$15,580,203		\$15,580,203
Total Fixed Equipment Cost	\$0	\$0	\$0
Total Non-Fixed Equipment Cost	\$2,114,065		
Land Cost	\$0	\$0	
Site Preparation Cost	\$0	\$0	
<i>Fees (Architectural, Consultant, etc.)</i>	\$2,625,000	\$1,739,897	\$885,103
<i>Contingency Reserve</i>	\$0	\$0	\$0
<i>Capitalized Interest</i>	\$3,775,944	\$2,502,764	\$1,273,180
<i>Other</i>	\$6,422,202	\$0	
Total Proposed Capital Expenditure	\$59,044,252	\$32,769,499	\$17,738,486
Square Footage	206,743	137,033	69,710
<i>Allocation Percent</i>		66.28%	33.72%
Costs Less Land, Non-Fixed Eqt., Other	\$56,930,187	\$32,769,499	\$17,738,486
Cost Per Square Foot	\$275.37	\$239.14	\$254.46