

**DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT  
AUGUST 2008**

**CON REVIEW: HG-CB 0608-018**

**METHODIST HEALTHCARE-OLIVE BRANCH HOSPITAL**

**CONSTRUCTION/ESTABLISHMENT OF A 100-BED ACUTE CARE HOSPITAL**

**CAPITAL EXPENDITURE: \$151,500,000**

**LOCATION: OLIVE BRANCH, DESOTO COUNTY, MISSISSIPPI**

**STAFF ANALYSIS**

**I. PROJECT SUMMARY**

**A. Applicant Information**

Methodist Healthcare-Olive Branch Hospital is a wholly owned subsidiary of Methodist Le Bonheur Healthcare of Memphis, Tennessee, a not-for-profit corporation consisting of a 32-member Board. Methodist Le Bonheur Healthcare also holds ownership and operating interests in multiple healthcare facilities of several types in West Tennessee as well as a Minor Med/Urgent Care Center and two outpatient imaging centers in North Mississippi.

**B. Project Description**

Methodist Healthcare-Olive Branch requests Certificate of Need (CON) authority for the establishment of a new 100-bed acute care hospital in Olive Branch, DeSoto County, Mississippi.

The project involves construction of a four-story patient tower with building space for ancillary and support services, a central energy plant, and parking lots in the front and back of the building. The hospital structure will consist of three distinct sections: 1) administrative and public space; 2) health services and ancillary space; and 3) the patient tower. At conclusion of the project the hospital will contain 100 acute care beds in the patient tower, including 10 obstetrical beds (LDRP) on the first floor and three 30 bed units for a total of 90 medical/surgical universal beds on the second, third, and fourth floors. In addition, the facility will contain six operating rooms including one open-heart room, adult and pediatric emergency services, two cardiac catheterization labs (cath labs), a 1.5T magnetic resonance imaging (MRI) unit, a full range of ancillary departments, and support services. The applicant also proposes to participate in the statewide trauma system as a Level IV facility.

The applicant states that the buildings will be designed to be LEED certified by the US Green Building Council as green buildings. According to the applicant, this concept will improve the buildings' efficiency and reduce the impact on the environment with sustainable development for the region.

Methodist Le Bonheur, the parent company, has a purchase agreement with an option to purchase 40 acres of land for the facility. The 276,000 square foot facility will be located on a 20-acre site located on the southeast corner of US Highway 78

and Bethel Road (Hacks Cross Road) and will consist of the hospital building, the central energy plant, and ample, convenient parking for patients, families, and staff.

Methodist Olive Branch contends that its primary service area is the community of Olive Branch while the secondary service area consists of zip codes in DeSoto, Marshall, Tate, and Tunica counties in Mississippi.

The applicant projects a total of 535.8 FTE personnel at a cost of approximately \$34,226,169 the first year after completion of this project.

According to MSDH Division of Health Facilities Licensure and Certification, the site is conditionally approved pending notification by the local authority of proper zoning.

The applicant expects to obligate the capital expenditure by May 2009 and anticipates that the project will be complete by January 2012.

## **II. TYPE OF REVIEW REQUIRED**

This project for the establishment and construction of a new general acute care hospital, establishment of cardiac catheterization and open-heart services, offering of MRI services and establishment of obstetrical services involving a capital expenditure in excess of \$2,000,000, is reviewed under the applicable statutory requirements of Sections 41-7-173; 41-7-191 (1) (a), (d)(i), (ii), and (xii), and (j); 41-7-193; and 41-7-195, Mississippi Code of 1972, 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 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 September 4, 2008.

In addition, this project is reviewed under the FY 2007 State Health Plan, in effect on June 1, 2008, when the application was received. The FY 2009 State Health Plan became effective on August 11, 2008.

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

### **A. State Health Plan (SHP)**

The *FY 2007 State Health Plan* contains policy statements, criteria and standards which an applicant is required to meet prior to undertaking projects for the establishment/construction of a general acute care hospital, offering of obstetrical services when the capital expenditure exceeds \$2,000,000, cardiac catheterization

and open-heart services, and MRI services. This project is not in compliance with the FY 2007 State Health Plan, as discussed below:

### **Certificate of Need Criteria and Standards for the Establishment of a General Acute Care Hospital**

#### **SHP Criterion 1 – Need**

The applicant shall document a need for a general acute care hospital using the appropriate need methodology as presented in the Plan. In addition, the applicant must meet the other conditions set forth in the need methodology.

The Plan sets out two methodologies to project the need for general acute care hospitals:

- a. **Counties Without a Hospital** - The MSDH shall determine hospital need by multiplying the state's average annual occupied beds (1.75 in FY 2006; FY 2007 SHP) per 1,000 population by the estimated 2010 county population to determine the number of beds the population could utilize. A hospital with a maximum of 100 beds may be considered for approval if: (a) the number of beds needed is 100 or more; (b) there is strong community support for a hospital; and (c) a hospital can be determined to be economically feasible.
- b. **Counties With Existing Hospitals** - The MSDH shall use the following formula to determine the need for an additional hospital in a county with an existing hospital:

$$ADC + K(\sqrt{ADC})$$

**Where: ADC = Average Daily Census**

**K = Confidence Factor of 2.57**

The formula is calculated for each facility within a given General Hospital Service Area (GHSA); then beds available and beds needed under the statistical application of the formula are totaled and subtracted to determine bed need or excess within each GHSA. The MSDH may consider approval of a hospital with a maximum of 100 beds if: (a) the number of beds needed is 100 or more; (b) there is strong community support for a hospital; and (c) a hospital can be determined to be economically feasible.

The applicant proposes to construct a 100-bed general acute care hospital in DeSoto County. Located in General Hospital Service Area 2 (GHSA 2), DeSoto County has one acute care facility - Baptist Memorial Hospital-DeSoto (Baptist). Baptist has 339 beds, comprised of 309 medical/surgical beds and 30 rehabilitation beds. Therefore, this project is reviewed under the methodology for counties with existing hospitals.

According to the 2007 Report on Hospitals, Baptist had an ADC of 172.78 in 2007. Based on the above formula, 207 beds are needed in DeSoto County. There are currently 309 licensed acute care beds in the county with an ADC of 173, resulting in an excess of 102 beds. General Hospital Service Area 2 consists of 14 hospitals with a total of 1,400 acute care beds. The following table lists the hospitals located within GHSA 2, along with the resulting calculation of bed need. According to staff's calculation, GHSA 2 is over-bedded by 553 beds.

**Table 1**  
**General Hospital Service Area 2**  
**General Hospital Bed Need Calculation**

<b>Facility</b>	<b>Lic. Beds</b>	<b>Occ. Rate</b>	<b>ADC</b>	<b>Needed Beds</b>	<b>(Over)/Under Bedded</b>
Baptist Memorial, DeSoto	309	55.91	172.78	207	(102)
Bolivar Medical Center, Cleveland	165	38.08	62.84	84	(82)
Delta Regional Medical Center	221	46.97	103.80	130	(91)
Delta Regional-West Campus	97	8.29	8.05	16	(82)
Greenwood Leflore	188	64.99	122.18	151	(38)
Humphreys Co. Memorial Hosp.	34	33.18	11.28	20	(14)
Kilmichael Hospital	19	31.55	5.99	13	(7)
N. Sunflower	35	37.44	13.10	23	(13)
NW MS Reg Med Ctr.	181	44.49	80.53	104	(77)
Quitman Co. Hosp.	33	38.81	12.81	22	(11)
S. Sunflower	49	40.73	19.96	32	(18)
Tallahatchie Gen.	9	26.21	2.36	7	(3)
Tyler Holmes	25	34.10	8.53	17	(9)
University-Holmes Co.	35	33.12	11.59	21	(15)
	<b>1,400</b>			<b>847</b>	<b>(553)</b>

The applicant identified Olive Branch as its primary service area and zip codes in DeSoto, Tate, Marshall, and Tunica counties as its secondary service area. Thus, the applicant's identified service area includes counties in both GHSA 1 and GHSA 2. The following table indicates the counties, GHSA, and beds per hospital located within the applicant's defined service area. Based on the data contained in the table, the four-county service area identified by the applicant is over-bedded by 147 beds.

**Table 2**  
**Applicant's Defined Service Area**

	<u>GHSA</u>	<u>Lic Beds</u>	<u>Occ. Rate</u>	<u>ADC</u>	<u>Needed Beds</u>	<u>Over (Under) Bedded</u>
Baptist Memorial-DeSoto, DeSoto Co.	2	309	55.91	173	207	102
North Oak Regional Medical Center, Tate Co.	1	76	24.37	19	30	46
Alliance Healthcare, Marshall Co.	1	40	20.15	8	22	18
No Hospital -Tunica County	2	0.0	NA	NA	19	(19)
		<b>425</b>			<b>278</b>	<b>147</b>

The applicant contends that the methodology contained in the Plan to determine bed need is outdated and does not take into account all relevant factors. Methodist avers that patients are coming to Methodist facilities and the patient volumes support the need for the 100-bed hospital in Olive Branch, Mississippi. Methodist asserts that based on 2006 data from the Tennessee Joint Annual Reports, adult acute care hospitals in Shelby County staff approximately 270 acute care beds to provide care to Mississippi patients. The applicant further asserts that the formula from the Plan applied against this ADC, yields a need for 347 beds. The applicant states that Methodist provides care to nearly 50,000 Mississippi residents annually.

According to a report prepared by the American Health Planning Association, October 2006, approximately 18,500 Mississippians were discharged from Tennessee community hospitals in 2005. Of this amount, 90% were from Memphis area hospitals, with 75% (7,393 discharges) from all Methodist hospitals combined. Patient origin information submitted by the applicant indicates that 3,410 Mississippi residents sought inpatient care at Methodist's hospitals from January – September 2007 while 29,545 outpatients sought care at these facilities. Of the 3,410 inpatients, 57% were from DeSoto County. The following table shows the number of patients seeking care at the Methodist hospitals from the four counties stated as the applicant's primary and secondary service areas.

**Table 3**

**Mississippi Residents Seeking Care at Methodist Facilities**

<b>County</b>	<b>No. of Patients</b>	<b>Percentage (%)</b>
DeSoto	1955	57
Marshall	393	12
Tate	217	6
Tunica	52	2
Others	793	23
<b>Total</b>	<b>3,410</b>	<b>100</b>

In addition, the applicant deviated from the required methodology for the projection of need for a hospital in a county with an existing hospital by calculating its need based on a self-defined service area instead of the service area stated in the *FY 2007 State Health Plan*. Further, the applicant utilized population projections by Claritas to project a need for additional beds in DeSoto County.

Consequently, staff cannot accept the applicant's assertion of need for an additional 100-bed facility in DeSoto County. The applicant is not in compliance with this criterion.

**SHP Criterion 2 – Reasonable Amount of Indigent/Charity Care**

Methodist states that it serves all patients regardless of their ability to pay and that Methodist Olive Branch will continue this mission in the hospital in Olive Branch, Mississippi. It further affirmed that it will provide a reasonable amount of indigent/charity care. The applicant, however, projects that only 4% of its inpatient revenue and 2% of its outpatient revenue will come from Medicaid patients.

**Certificate of Need Criteria and Standards for Construction, Renovation, Expansion, Capital Improvements, Replacement of Health Care Facilities, and Addition of Hospital Beds**

**SHP Criterion 1 – Need**

This project proposes the construction of a new health care facility; therefore, it is reviewed under the criteria and standards for the establishment of a healthcare facility above.

**SHP Criterion 2 – Bed Service Transfer/Reallocation/Relocation**

Not applicable.

### **SHP Criterion 3 – Uncompensated Care**

See criterion 2 above for the establishment of a new healthcare facility.

### **SHP Criterion 4 –Cost of Project**

- a. **Cost per Square Foot:** The proposed project consists of 276,000 square feet of new construction at an estimated cost of \$366.18 per square foot. The cost per square foot of new hospital construction in this project exceeds the cost level where 75% of projects cost less than (\$310/sq. ft.) for projects surveyed in the *Means Building Construction Cost Data, 2007 Edition*. No similar projects have been approved within the past 12 months to make a cost comparison.
- b. **Equipment Cost:** The applicant proposes to purchase fixed equipment at a cost of \$4,600,000 and non-fixed equipment at a cost of \$27,875,000.

### **SHP Criterion 5 - Floor Areas and Space Requirements**

The application contains schematic drawings and site plan of the proposed facility. The facility will consist of 276,000 square feet of space.

### **SHP Criterion 6 – Renovation Cost**

This project is for the construction of a new health care facility; therefore, this criterion is not applicable.

### **SHP Criterion 7 – Need for Specific Services**

#### **Criteria and Standards for the Acquisition or Otherwise Control of MRI Equipment**

### **SHP Criterion 1 – Need**

The entity desiring to acquire or otherwise control the MRI equipment must document that the specified equipment shall perform a minimum of 1,700 procedures per year by the end of the second year of operation. The applicant shall use the procedures estimation methodology appearing in the Plan to project the annual patient service volume of the proposed equipment.

Methodist used historical data for patients that live in Mississippi and seek MRI services from Methodist facilities in Tennessee. The applicant states that currently, Methodist adult facilities in Shelby County perform over 3,500 MRI procedures for Mississippi residents. The procedures are spread throughout the Methodist inpatient and outpatient adult campuses and all MRI units in Shelby County,

Tennessee, are operating well above the minimum capacity rate of 1,700 procedures per unit annually, according to the applicant. The applicant does not identify the counties, however, from which the Mississippi patients come. Therefore, staff could not determine if all of the patients making up the 3,500 procedures are from the applicant's defined Mississippi service area.

The applicant further states that the volume projections for MRI procedures are projected based on the current ratio of MRI procedures to total discharges. The applicant projects to perform over 2,300 MRI procedures by 2013, year two of the project. According to the applicant, the procedures estimation methodology presented in the Plan yields the following results:

<b>County/City</b>	<b>2007 Volume</b>	<b>Factor</b>	<b>Calc MRI Proc</b>
<b>Inpatient</b>			
Category 1	2,652	-	-
Category 2	973	0.05	49
Category 3	539	0.15	81
Category 4	203	0.50	101
Unclassified	1,317	-	-
<b>Subtotal</b>	<b>5,684</b>		<b>231</b>
<b>Outpatient</b>	<b>4,090</b>	<b>0.25</b>	<b>1,023</b>
		<b>Total</b>	<b>1,253</b>

Based on the information above, the applicant is not in compliance with this criterion.

Methodist contends, however, that the formula is outdated as it is based on an incomplete list of DRG's. The applicant projects that it will perform 2,261 MRI procedures in Year 1; 2,311 in Year 2; and 2,363 in Year 3.

**SHP Criterion 2 – Assurances**

Methodist provided documentation that the equipment is FDA approved; assures that only qualified personnel will be allowed to operate the MRI equipment; and that there are no existing plans for the equipment to be rented, leased or otherwise used on a contractual basis.

**SHP Criterion 3 – Information Recording/Maintenance**

The applicant affirmed that all information and data required will be made available to the Mississippi State Department of Health within the expected time frame.

**SHP Criterion 4 – Authorized Entity**

Methodist Olive Branch submitted documentation that the entity is authorized to do



business in the state of Mississippi.

### **SHP 5 – Authorization of Provider**

Methodist Healthcare will be the provider of MRI services and requests authorization by this application.

#### **Certificate of Need Criteria and Standards for the Offering of MRI Services**

##### **SHP Criterion 1 – Need**

The entity desiring to offer MRI services must document that the equipment shall perform a minimum of 1,700 procedures per year, using the procedures estimation methodology appearing in the Plan. As stated above, Methodist could not project 1,700 procedures using the procedures estimation methodology stated in the Plan. However, using current ratio of MRI procedures to total discharges at Methodist, the applicant stated that it will provide 2,300 MRI procedures by the second year of operation. There are currently 13 providers of MRI services in GHSA 2 utilizing approximately 9.44 FTE units. These providers performed an average of 2,371 MRI procedures during FY 2007.

##### **SHP Criterion 2 - Documentation of Diagnostic Imaging Modalities**

Methodist affirmed that a full range of diagnostic imaging modalities including computed tomography, ultrasound, angiography, nuclear medicine and conventional radiology services will be offered.

##### **SHP Criterion 3- Accessibility**

Methodist affirmed that the facility and its participating medical personnel will not have policies or procedures which would exclude patients based on race, color, age, sex, ethnicity, or ability to pay.

##### **SHP Criterion 4 - Staffing**

The applicant affirmed that the required staff including the director and full-time MRI technologist-radiographer will be available to provide the MRI services.

##### **SHP Criterion 5 - Research Staffing**

Methodist affirmed that the facility does not plan to use the MRI equipment for experimental procedures.

### **SHP Criterion 6 -Recording of Data**

Methodist affirmed that the facility will record and maintain the information required by this criterion and shall make the data available to the Mississippi State Department of Health regarding the operation of the MRI equipment. Also, the applicant states it will record source of payment for procedures and the total amounts charged during the fiscal year.

### **SHP Criterion 7 - CON Approval**

Methodist proposes to obtain CON approval as a new provider of MRI services in Mississippi.

### **Certificate of Need Criteria and Standards for the Acquisition or Otherwise Control of Therapeutic Cardiac Catheterization Equipment and/or the Offering of Therapeutic Cardiac Catheterization Services**

#### **SHP Criterion 1 – Need**

The applicant shall document a minimum population base of 100,000 in the CC/OHSPA where the proposed therapeutic cardiac catheterization equipment/service is to be located. The proposed facility will be located in DeSoto County, CC/OHSPA 2. CC/OHSPA 2 consists of the following counties: DeSoto, Tunica, Coahoma, Quitman, Bolivar, Tallahatchie, Washington, Sunflower, Leflore, Humphreys, Carroll, Montgomery, and Holmes Counties. According to the FY 2007 State Health Plan, these 13 counties have a 2010 projected population of 432,041 and DeSoto County alone has a population projection of 148,614\*.

**\*Source:** Mississippi Population Projections for 2010, 2015, and 2020, Center for Policy Research and Planning, Mississippi Institutions of Higher Learning, August 2005, herein after referred to as “2010 Population Projections”.

The applicant, however, proposes that its primary service area includes Olive Branch while its secondary service area includes zip codes in DeSoto, Marshall, Tate, and Tunica counties. These four counties, which include CC/OHSPA 1 and 2, have a combined 2010 population projection of 224,020.

Staff conducted a market-share analysis of the applicant’s defined service area to determine the percentage of Mississippi patients from each county for the period from January to September 2007, for the Memphis facilities. Based on this market share analysis, staff determined that the Methodist facilities drew 57% of its Mississippi patients from DeSoto County and 2% from Tunica County (See Table 3).

In addition, based on the market share analysis, staff determined that the applicant’s population base (from its defined service area) is 127,437, an excess of 100,000 (See Attachment 3).

## **SHP Criterion 2 – Minimum Procedures**

The applicant proposing to establish therapeutic cardiac catheterization services shall demonstrate that the proposed equipment/service utilization will be a minimum of 450 cardiac catheterizations, both diagnostic and therapeutic, per year by the third year of operation. The applicant submits that Methodist currently performs nearly 450 diagnostic and therapeutic cardiac catheterization procedures for patients that live in Mississippi and use the Methodist adult hospitals in Tennessee. The applicant states that the projected cardiac catheterization open-heart procedures are developed based on the hospital's existing volume. The applicant's target service area for this facility is Olive Branch, DeSoto County, Mississippi. Thus, the applicant believes the estimated population growth attributes to the additional patient volume and will attract an additional 25% of the cardiac surgical admissions for individuals living in Olive Branch. The applicant further states that the cardiac catheterization procedures are projected based on the current ratio of cardiac catheterization volumes to discharges multiplied by projected discharges. The applicant projects the following utilization for the cardiac services at Methodist Healthcare, Olive Branch Hospital for the first, second, and third years of operation:

<b>Year</b>	<b>Projected Cardiac Catheterization Procedures</b>
<b>1<sup>st</sup></b>	500
<b>2<sup>nd</sup></b>	518
<b>3<sup>rd</sup></b>	536

The applicant submitted documentation that indicate that Methodist performed 298 diagnostic cardiac catheterization procedures and 139 therapeutic cardiac catheterization procedures, for a total of 437, on patients originating from Mississippi in 2007.

## **SHP Criterion 3 - Impact on Existing Providers**

The applicant shall demonstrate that each existing unit which is (a) in the CC/OHSPA and (b) within 45 miles of the application has been utilized for a minimum of 450 procedures per year for the two most recent years. The *FY 2007 State Health Plan* lists four facilities in CC/OHSPA 2 with cardiac catheterization laboratories, but only one is in DeSoto County. Baptist Memorial Hospital-DeSoto performed 1,745 procedures in 2004, 1,611 procedures in 2005, 1,437 procedures in 2006, and 1,752 procedures in 2007. As shown in the table below, three facilities reported procedures in excess of 450 per lab for 2004 and 2005. However, updated data indicate that two facilities had a decline in the number of cardiac cath procedures in 2006 and 2007. Delta Regional reported an average of 449 procedures per lab in 2006 and an average of 440 per lab in 2007. Therefore, the applicant does not meet this criterion. The following table shows the cardiac catheterization providers in CC/OHSPA 2 from 2004 to 2007.

County	Hospital	Procedures/Year				# of Labs
		2004	2005	2006	2007	
DeSoto	Baptist Memorial	1,745	1,611	1,437	1,752	2
Coahoma	NW MS Reg. Med. Ctr.	1,618	1,805	693	578	1
Washington	Delta Reg. Med. Ctr.	2,480	1,043	897	880	2
LeFlore	Greenwood Leflore Hosp	0	0	0	0	1
<b>Totals</b>		<b>5,843</b>	<b>4,459</b>	<b>3,027</b>	<b>3,210</b>	<b>6</b>

**SHP Criterion 4 - Staffing Standards**

The applicant submits that it can obtain the ability to administer the proposed services, provide sufficiently trained, and experienced professional staff and evaluate the performance of the programs.

**SHP Criterion 5 – Staff Residency**

The applicant submits that the medical staff performing the cardiac catheterization procedures will reside within the specified proximity to the facility. However, no documentation was submitted to determine if personnel would be living and working within the specific hospital area or that there would be no traveling team as referenced by SHP Policy Statement No. 10.

**SHP Criterion 6 – Recording and Maintenance of Data**

The applicant affirms that it will provide the required information upon request.

**SHP Criterion 7 – Open-Heart Surgery**

This application includes the proposal for open-heart surgery services.

**SHP Criterion 8 – Regulatory Approval**

The applicant has submitted this application in compliance with this criterion.

**Acquisition or Otherwise Control Of Open-Heart Surgery Equipment and/or The Offering of Open-Heart Surgery Services**

**SHP Criterion 1- Need**

The CON criteria and standards for the offering of open-heart surgery services outlined in the *FY2007 State Health Plan* state that an entity desiring to offer open-heart services must document a minimum population base of 100,000 in the CC/OHSPA where the proposed open-heart surgery equipment/service is to be

located. The planning area, CC/OHSPA 2, wherein the facility will be located has a total population of 432,041. The applicant has a market share in its defined service area of 127,437, based on the 2010 population projections stated in the Plan (See Attachment 3).

### **SHP Criterion 2 – Minimum Procedures**

The *FY 2007 State Health Plan* states that the applicant shall demonstrate that the facility will perform a minimum of 150 open-heart surgeries per year by the third year of operation.

The applicant states that Methodist currently performs nearly 150 open-heart surgeries for patients that live in Mississippi at Methodist adult hospitals in Tennessee. The applicant further states that the primary service area for this facility is Olive Branch, DeSoto County, Mississippi. The applicant used their existing utilization and the additional patient volume, based on the estimated population projections of Olive Branch in 2012 to 2014 to determine that it can meet this criterion. The applicant believes that Methodist Olive Branch will attract an additional 25% of the cardiac surgical admissions for the individuals living in Olive Branch. As a result, the applicant expects Methodist Olive Branch to perform 176 open-heart surgeries by the third year of operation.

<b>Year</b>	<b>Projected Open-Heart Procedures</b>
<b>1<sup>st</sup></b>	165
<b>2<sup>nd</sup></b>	171
<b>3<sup>rd</sup></b>	176

The applicant submitted documentation that indicates that Methodist performed a total of 144 open-heart surgeries by DRG for patients originating from Mississippi in 2007.

### **SHP Criterion 3 – Impact on Existing Providers**

An applicant proposing to acquire or otherwise control open-heart surgery equipment and/or offer open-heart surgery services shall document that each facility offering open-heart surgery services which is in the CC/OHSPA and within 45 miles of the applicant, has performed a minimum of 150 procedures per year for the two most recent years.

As reported in the *FY 2007 State Health Plan*, there are three facilities in CC/OHSPA 2 that have CON authority to perform open-heart surgeries: Baptist Memorial Hospital –DeSoto (DeSoto County, Mississippi), Delta Regional Medical Center (Washington County, Mississippi), and Greenwood Leflore Hospital (Leflore County, Mississippi), where Methodist Olive Branch will be located. As shown below, Delta Regional Medical Center did not perform the required 150 procedures

per unit as required by this criterion. Therefore, the applicant is not in compliance with this criterion.

County	Hospital	2004 Surgeries	2005 Surgeries	2006 Surgeries	2007 Surgeries
DeSoto	Baptist Mem Hosp-DeSoto	223	271	227	193
Washington	Delta Regional Medical Center	4	70	64	69
Leflore	Greenwood Leflore Hospital	0	0	NA	NA

The applicant, however, does not anticipate that this service will cause an adverse impact because only one of the current providers is located in the applicant's defined service area, DeSoto County.

**SHP Criterion 4 – Staffing Standards**

Methodist affirms that it can obtain the ability to administer the proposed services, provide sufficiently trained, and experienced professional staff and evaluate the performance of the programs.

**SHP Criterion 5 – Staff Residency**

Methodist certifies that the medical staff performing the open-heart surgery procedures will reside within the specified proximity to the facility.

**SHP Criterion 6 - Information Requirement**

Methodist assures that it will maintain the data required by this criterion and make it available to the Mississippi State Department of Health annually.

**SHP Criterion 7 – CON Approval**

This application serves as a request for CON authority to comply with this criterion.

**Certificate of Need Criteria and Standards for Obstetrical Services**

**SHP Criterion 1 – Need**

Methodist submits that it currently delivers over 700 babies for mothers from Mississippi in their Tennessee facilities. Almost 80% of these mothers reside in DeSoto County, according to the applicant. Additionally, the applicant states that the female population in child bearing years (18-44) is increasing. The applicant states that Claritas projects the DeSoto County population will increase more than 10% by 2012, and almost 12% in Olive Branch. By 2012 and 2013, the first two full years of operation, the applicant states it is reasonable to expect a minimum of 150

and 250 deliveries at Methodist Olive Branch based on these statistics. The applicant believes that establishing obstetrical services closer to home for these patients and families will make the services more accessible, acceptable, and contain costs by reducing drive time and travel expense.

By the end of the second year, Methodist Olive Branch projects there will be 600 deliveries, over two times the minimum to justify the need for perinatal services.

Methodist Olive Branch is proposed to be located in Perinatal Planning Area 1. Only one facility within this Planning Area reported dedicated obstetrical beds (OB) during FY 2006. Grenada Lake Medical Center reported seven OB beds and 666 deliveries, for an occupancy rate of 65%. As the applicant points out, four other facilities within the planning area reported deliveries but no dedicated OB beds.

#### **SHP Criterion 2 – Dedicated Obstetrical Beds**

The applicant proposes 10 obstetrical labor, deliver, recovery and postpartum (LDRP) beds. Therefore, the applicant is in compliance with this criterion.

#### **SHP Criterion 3 – Perinatal Services**

Methodist Healthcare Olive Branch documents that it will provide basic perinatal services at the proposed facility.

#### **SHP Criterion 4 – Nursing Personnel**

Methodist Healthcare Olive Branch certified that it will provide a full-time nursing staff under the direct supervision of a qualified professional nurse.

#### **SHP Criterion 5 – Written Policies**

The applicant certified that it will have written policies in place and personnel trained prior to the initiation of obstetrical and newborn care. Methodist states that it provides obstetrical and newborn care in three of their Tennessee facilities and the proper policies and training are in effect in all locations.

#### **SHP Criterion 6 – Emergency Cesarean Delivery**

Methodist documents that upon initiation of obstetrical services that all personnel required for cesarean delivery will be in the hospital and readily available at all times.

#### **SHP Criterion 7 – Normal Driving Time**

The applicant certified that services will be available to 95% of the population within one hour normal driving time in rural areas and within 30 minutes normal driving

time in urban areas.



### **SHP Criterion 8 – Protocols**

The applicant affirmed that protocols will be in place to appropriately transfer neonates in both routine and emergency circumstances. According to the applicant, Methodist Healthcare-Germantown Hospital is one of the closest neonatal intensive care units and Methodist – Le Bonheur Children’s Medical Center is the only tertiary pediatric facility in the region. The applicant states that both facilities will have the capabilities and capacities to accept transfers from the Olive Branch facility based on the level of care needed by the infant.

### **SHP Criterion 9 – Information Requirement**

Methodist assures that all information and data required by this criterion will be made available to the Mississippi State Department of Health within the expected time frame.

### **SHP Criterion 10 – Admission Policies**

Methodist confirmed that the facility and its participating staff will not have policies or procedures which would exclude patients based on race, color, age, sex, ethnicity, or ability to pay.

## **B. General Review (GR) Criteria**

Chapter 8 of the *Mississippi Certificate of Need Review Manual, Revised February 23, 2008*, addresses general criteria by which all CON applications are reviewed.

### **GR Criterion 1 – Consistency with the State Health Plan**

The project is not consistent with the *FY 2007 State Health Plan*. Methodist Healthcare Olive Branch seeks to construct an acute care hospital in DeSoto County, consisting of 90 general medical surgical beds, 10 obstetrical beds, MRI, cardiac catheterization and open-heart surgical services.

The Mississippi Certificate of Need Review Manual, Revised February 23, 2008, states no CON shall be issued unless the action proposed in the application for such certificate substantially complies with the projection of need as reported in the State Health Plan which is in effect at the time the application is received by the Department. The applicant deviated from the required methodology in the Plan in order to project a need for a new hospital with 100 beds in GHSA 2.

### **GR Criterion 2 - Long Range Plan**

The applicant states that Methodist Le Bonheur Healthcare’s mission is to provide high quality, cost effective healthcare to all sectors of its service area. Methodist

Healthcare further states that they have strategically placed and maintained hospital facilities in Shelby and Fayette counties as part of that mission, to provide multiple entry points to acute care for communities of varied social and economic characteristics.

### **GR Criterion 3 – Availability of Alternatives**

Methodist considered two alternatives to the construction of a new 100-bed hospital in Olive Branch. One alternative considered was to do nothing, which the applicant states is not acceptable because thousands of patients who live in Mississippi seek healthcare services from Methodist in their Tennessee facilities. In addition, the applicant asserts that many residents of DeSoto County have commercial insurance coverage through Cigna and United Healthcare, both of which have long term contracts with Methodist Le Bonheur Healthcare. These patients, according to Methodist, have no covered option for acute and emergency care in DeSoto County, and must travel across the state line into Tennessee for services.

Another alternative considered was to offer healthcare services at a lower level. The applicant states that it has a Minor Med/Urgent Care center and two Outpatient Imaging Centers in DeSoto County. Although these are key components of an integrated system, this is not the full range of healthcare services needed for this patient population. Methodist contends that it treats nearly 50,000 patients from Mississippi annually in their Tennessee facilities.

The applicant concluded that the proposal to construct a new 100-bed hospital in Olive Branch, Mississippi, is the best approach to meet the needs of its Mississippi patients.

### **GR Criterion 4 - Economic Viability**

Based on the three-year projected operating statement contained in the application, the applicant will realize net losses of \$13,681,282 the first year and \$2,499,067 the second year, with net income of \$5,303,649 the third year of operation of the Olive Branch facility.

**Proposed Charges:** The applicant believes that the charges and profitability of the proposed services are comparable to those currently provided at other Methodist Le Bonheur Healthcare hospitals. The applicant's charges appear to be slightly higher than most projections for MRI services. No projects for cardiac cath or open-heart surgery services have been reviewed within the past 12 months to make a comparison. The applicant's proposed costs and charges for the various services are as follows:

Service	Year 1		Year 2		Year 3	
	Cost	Charge	Cost	Charge	Cost	Charge
MRI	\$293	\$3,661	\$338	\$3,881	\$339	\$4,114
Cardiac Cath	\$3,149	\$24,403	\$3,313	\$25,867	\$3,341	\$27,419
Open-Heart Surg.	\$25,881	\$72,268	\$37,992	\$143,632	\$52,519	\$224,952

**Projected Levels of Utilization:** The applicant projects an occupancy rate of 43% in Year 1, 66% in Year 2, and 91% in Year 3. However, the average occupancy rate for facilities in GHSA 2 was 45.41% for FY 2007. In addition, the average occupancy rate for acute care beds in Mississippi as a whole was 46.38% for FY 2007. Therefore, the applicant’s projections appear to be extremely optimistic.

**Project’s Financial Feasibility Study:** The application contained a letter signed by the senior vice president of finance for Methodist Healthcare attesting to the financial feasibility of the project.

However, given the facts stated above, the economic viability of this project is questionable.

**GR Criterion 5 - Need for the Project**

**Access by Population Served:** The applicant asserts that between 2007 and 2012 (based on Claritas data), the total population of the defined service area in North Mississippi (including zip codes in DeSoto, Marshall, Tunica and Tate counties) is projected to increase by 14% while the Olive Branch population is projected to increase by 20%. The applicant projects that the numerical increase of approximately 29,000 new residents in the service area will exceed the projected 2010 population of 50 of the 82 counties in the state. The applicant points out that it is particularly significant that during this period, the area population aged 55 years and older – the group that most needs hospital care—will increase 27%, almost 12,000 persons.

The applicant further submits that the availability of only one hospital in the county unduly restricts the North Mississippi residents on their options for care. The applicant estimates that Methodist treats over 7,000 inpatients and over 42,000 outpatients annually from Mississippi in their Tennessee hospitals. In addition, the applicant estimates that it treats approximately 2,000 children from Mississippi annually.

Methodist states that based on the projections in the 2007 Mississippi State Health Plan, DeSoto County is projected to be the third most populated county in the state by 2010. They further aver that the other counties that comprise the Top 5 (counties projected to have populations greater than 140,000 by 2010), have two to four acute

care facilities meeting the needs of their physicians and patients. DeSoto County is the only one of the Top 5 counties with only one acute care hospital. Methodist believes the addition of local health capacities and services in DeSoto County will ensure acute care and emergency services will be appropriately accessible for the entire community.

**Relocation of Services:** This project is for the construction of a new healthcare facility in DeSoto County. Therefore, this criterion is not applicable.

**Probable Effect on Existing Facilities in the Area:** As stated above, there are 14 hospitals in GHSA 2, which had an average occupancy rate of 45.41 for FY 2007. In addition, the four hospitals in the applicant's defined secondary service area – DeSoto, Marshall, and Tate, had an average utilization of 48% for FY 2007.

Given the utilization of existing facilities in GHSA 2 and the state as a whole, staff contends that the establishment of another hospital in DeSoto County with a service area that extends into GHSA 1 will have an adverse effect on the hospitals in GHSA 2 as well as hospitals in GHSA 1, in particular Marshall and Tate counties.

In addition, all of the cardiac cath and open-hearth surgery units in GHSA 2 are not performing at the required level before another unit can be approved.

**Community Reaction:** The application contains numerous letters of support for the project from political officials, physicians, citizens, and businesses.

Letters of opposition were received from Parkwood Behavioral Health, Olive Branch, and Baptist Memorial Hospital-DeSoto, Southaven, DeSoto County; Alliance Healthcare System, Holly Springs, Marshall County; Mississippi State Senate-District 2, House of Representatives-District 5; mayor of Holly Springs; attorneys, physicians and citizens of the proposed service area.

#### **GR Criterion 6 - Access to the Facility or Service**

**Medically Underserved Population:** Methodist affirmed that all residents of the health planning service area, including Medicaid recipients, charity/medically indigent patients, racial and ethnic minorities, women, handicapped persons and the elderly have access to the services of the existing facilities and will have access to the proposed services and facility. The applicant proposes to provide 3% of gross revenue the first year, or \$4,366,249, and 4% the second year, \$7,553,254, to care for the medically indigent patients.

**Performance in Meeting Federal Obligations:** The applicant will be a new facility and therefore has no federal obligations.

### **GR Criterion 7 - Information Requirement**

The applicant 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**

Methodist submits that its service area is defined based on patients who live in Mississippi that currently cross the state line to access Methodist facilities in Tennessee. The projections are based on existing Methodist patient volumes and the volumes projected in the primary service area. The applicant identifies its primary service area as the Olive Branch community and the secondary service area as zip codes within the Mississippi counties of DeSoto, Marshall, Tunica, and Tate.

The applicant states that patients in Olive Branch currently have long commute times to healthcare services. Many of these patients access healthcare facilities in Shelby County Tennessee, including the four adult and one pediatric hospital operated by Methodist Le Bonheur Healthcare. Methodist believes that the close affiliation with Methodist – Le Bonheur Children’s Medical Center for the specialized, chronic, or acute pediatric care will benefit the children in the primary and secondary service areas.

There are three acute care providers in the applicant’s defined secondary service area: Baptist Memorial Healthcare-DeSoto, DeSoto County; Alliance Healthcare System, Marshall County; and North Oak Regional Medical Center, Tate County. Methodist states that it proposes to wrap its service offerings in MRI, cardiac cath, open-heart surgery, obstetrical, and pediatric emergency around any existing local provider that does not offer the full range of services. The applicant submits that it currently treats thousands of patients from Mississippi in its Tennessee facilities.

Methodist plans to offer care to all patients seeking care at its Olive Branch facility from the primary and secondary service areas, and believes that this innovative approach to service delivery will distinguish Methodist in the service area.

Methodist does not expect to adversely impact the other providers in the service area. However, staff contends that given the occupancy rates of the facilities in the area it is likely that the existence of another facility in the area will have an adverse impact on existing providers. In addition, all of the cardiac cath and open-heart facilities in the area are not performing at the required level to show need for another unit. Further, the low utilization of these facilities shows that sufficient capacity exists to meet such future acute care needs. Therefore, this application is an unnecessary duplication of health services.

### **GR Criterion 9 - Availability of Resources**

Methodist submits that a total of 535.8 FTEs will be needed at the new location in 2012, the first full year of operation and that it will have over three years to accomplish that recruitment.

The applicant states that the largest classes of associates needed to staff the new facility include RN's and technical/paramedical personnel. It further states that Methodist has a significant number, over 400, of this type of clinician that live in Mississippi. The new facility proposed for Olive Branch will offer them the option to work closer to home and maintain the link with the Methodist culture. Methodist states that it also has affiliations with multiple colleges, which will provide another main source for recruitment.

Methodist states that over the last several years it has implemented a host of strategies focused on attracting and retaining qualified personnel. Methodist believes that it compares favorably with national benchmarks for low turnover and for nursing hours per patient day and RN skill mix.

Letters of opposition received expressed concerns regarding the nursing shortage in the area and the state as a whole and that the project will dilute "an already stressed labor pool".

### **GR Criterion 10 – Relationship to Ancillary or Support Services**

The applicant states that Methodist Olive Branch will provide a full range of ancillary and support services to support the hospital. These ancillary services will include operating room, lab, blood bank, pharmacy, radiology, respiratory, physical therapy, rehab, and emergency. The support services include but are not limited to plant operations, utilization management, admissions, housekeeping, HIM/transcription, and other administrative services.

### **GR Criterion 14 - Construction Projects**

The application contains a cost estimate prepared by Tro Jung/Brannen Architects and a schematic drawing of the proposed construction project.

The total project will cost \$366.18 per square foot for new construction of the hospital and MOB combined (see Attachment 2). The *Means Building Construction Cost Data, 2008 Edition*, lists new construction costs for hospitals ranging from \$172 (where 25% of projects cost less) to \$310 (where 25% of projects cost more) per square foot. This project exceeds the high range for construction listed in this publication.

**GR Criterion 16 - Quality of Care**

The applicant indicates that Methodist Le Bonheur Healthcare has participated in quality initiatives from IHI, CMS, and other organizations, including the Premier/CMS Hospital Quality Incentive Demonstration project. In addition to participating in such special initiatives, MLH monitors clinical quality using such tools as the Balanced Scorecard, Clinical Quality Report, and Patient Safety Dashboard. Each of these tools has been used to launch internal quality improvement projects that have involved multiple departments and facilities as participants.

**IV. FINANCIAL FEASIBILITY**

**A. Capital Expenditure Summary**

The total estimated capital expenditure is allocated as follows:

<b>Cost Item</b>	<b>Projected Cost</b>	<b>% of Total</b>
	\$	
Construction Cost - New	79,200,000	52.28%
Construction Cost - Renovation	-	0.00%
Capital Improvements	-	0.00%
Total Fixed Equip Cost	4,600,000	3.04%
Total Non-Fixed Equip Cost	27,875,000	18.40%
Land Cost	3,000,000	1.98%
Site Prep Cost	3,250,000	2.15%
Other - Site Expense Excavation	250,000	0.17%
Fees - architectural, engineering, etc.	5,771,500	3.81%
Fees - legal and accounting	250,000	0.17%

**B. Method of Financing**

The applicant proposes to fund the project with cash reserves. Methodist Healthcare audited financial statements for 2004 to 2007 show insufficient cash on hand as of 2007 (\$113.9M) to entirely fund the cost of the project. Additionally, it is noted that the financial statements show an \$88M jump in cash on hand from \$25.7M in 2006 to \$113.9M in 2007, largely fueled by depreciation and amortization of \$65.8M.

**C. Effect on Operating Cost**

The Three-Year Projected Operating Statement is presented in Attachment 1 of this staff analysis.

**D. Cost to Medicaid/Medicare**

Based on revenue source projections presented in the application, the effect of the project on third party payers is as follows:

<b>Payer Mix</b>	<b>Utilization Percentage</b>	<b>First Year Revenue</b>
Medicaid	3.6	\$ 9,021,660
Medicare	34.7	86,958,773
Commercial	57.8	144,847,754
<b>Self Pay</b>	3.9	9,773,464
<b>Total</b>	<u>100.0</u>	<u>\$250,601,651</u>

**V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES**

The Division of Medicaid was provided a copy of this application for review and comment. Based on its analysis, the Division of Medicaid estimates the increased annual cost to Medicaid to be \$1,782,182 in inpatient hospital services. Any portion related to outpatient services would be paid as outlined in the Medicaid's State Plan. The Division of Medicaid did not oppose this project.

**VI. CONCLUSION AND RECOMMENDATION**

This project is not in substantial compliance with the criteria and standards for the construction/establishment of a general acute care hospital, acquisition or otherwise control of MRI equipment, and the acquisition or otherwise control of cardiac catheterization and open-heart surgery equipment and services, as contained in the *FY 2007 State Health Plan; the Mississippi Certificate of Need Review Manual, Revised February 23, 2008*; and duly adopted rules, procedures and plans of the Mississippi State Department of Health. Specifically, the project does not comply with the following:

- **SHP Criterion 1 – Need.** The applicant relied on population projections by Claritas in projecting the need for the project. Based on the need methodology in the *FY 2007 State Health Plan*, the service area in which the project will be located is over-bedded by 553 beds and DeSoto County is over-bedded by 102 beds. In addition, based on the same methodology, the applicant's defined service area is over-bedded by 147 beds. Furthermore, the hospitals in GHSA 2 had an average occupancy rate of 45.51% for FY 2007. Therefore, the applicant could not establish need for a new 100-bed acute care hospital in DeSoto County.



- **MRI Equipment and Services.** The applicant did not project sufficient MRI procedures using the required procedures estimation methodology.
- **Cardiac Catheterization Equipment and Services.** Each existing cardiac catheterization unit in GHSA 2 has not performed 450 procedures for the two most recent years as required by the Plan.
- **Open-Heart Surgery Equipment and Services.** Each existing open-heart surgery facility in GHSA 2 has not performed 150 open-heart surgeries per year for the two most recent years as required by the Plan.
- **Economic Viability.** The applicant's charges for services appear to be high. Projected levels of utilization are not consistent with current utilization of facilities in the area or the state as a whole. Therefore, the economic viability of the project is questionable.
- **Financial Feasibility.** The applicant proposes to finance the project with cash reserves; however, the audited financial statements contained in the application indicate insufficient cash on hand as of 2007 to fund the \$151,500,000 project. Therefore, the financial feasibility of this project is questionable.

*The Mississippi Certificate of Need Review Manual*, states that no CON shall be issued unless the action proposed in the application for such certificate has been reviewed for consistency with the specifications and criteria established by the Department and substantially complies with the projection of need as reported in the State Health Plan which is in effect at the time the application is received by the Department. As stated above, the results of the methodology contained in the Plan for the calculation of need for a general acute care hospital in a county with a hospital indicate that DeSoto is over-bedded by 102 beds. In addition General Hospital Service Area 2, wherein DeSoto County is located is over-bedded by 553 beds. Furthermore, the low utilization of facilities in the area shows that sufficient capacity exists to meet future acute care bed needs. Finally, the applicant's high projections and insufficient cash on hand cause doubt regarding the economic and financial viability of the project. Therefore, staff contends that the application is an unnecessary duplication of health services and will have an adverse impact on existing providers in the area.

Consequently, the Division of Health Planning and Resource Development recommends disapproval of this application submitted by Methodist Healthcare-Olive Branch for the establishment of a 100-bed acute care hospital in Olive Branch.

**Attachment 1**

Methodist Healthcare – Olive Branch  
 Three-Year Operating Statement

	Year 1	Year 2	Year 3
<b>Revenue</b>			
Inpatient Revenue	\$ 128,611,480	209,323,114	\$ 302,941,905
Outpatient Revenue	121,990,171	146,014,559	181,490,414
<b>Total Patient Revenue</b>	<b>\$ 250,601,651</b>	<b>355,337,673</b>	<b>\$ 482,132,414</b>
Deductions from Revenue	(182,480,427)	(261,693,646)	(360,330,167)
<b>Net Patient Revenue</b>	<b><u>\$ 68,121,224</u></b>	<b><u>93,644,027</u></b>	<b><u>\$ 124,102,153</u></b>
Other Operating Revenue	40,834	64,442	90,429
<b>Total Operating Revenue</b>	<b>\$ 68,162,058</b>	<b>93,708,468</b>	<b>\$ 124,192,582</b>
<b>Operating Expenses</b>			
Salaries	\$ 34,226,169	\$ 38,770,214	\$ 49,286,082
Benefits	7,178,355	8,105,585	10,284,782
Supplies	13,298,258	19,034,382	25,865,709
Services	1,847,949	2,171,793	2,524,163
Lease			
Depreciation	10,303,333	10,315,833	10,340,834
Interest	3,000,000	3,000,000	3,000,000
Other	11,989,276	14,809,728	17,587,363
<b>Total Operating Expenses</b>	<b><u>\$ 81,843,340</u></b>	<b><u>96,207,535</u></b>	<b><u>\$ 118,888,932</u></b>
<b>Net Operating Income (Loss)</b>	<b>\$ (13,681,282)</b>	<b>\$ (2,499,067)</b>	<b>\$ 5,303,649</b>
<b>Assumptions</b>			
Inpatient Days	14,576	24,152	33,065
Outpatient Days	14,885	16,847	19,809
Cost / Inpatient Day	\$ 5,217	\$ 3,983	\$ 3,596
Cost / Outpatient Day	\$ 5,501	\$ 5,711	\$ 6,002

Charge / Inpatient Day	\$ 8,199	\$ 8,667	\$ 9,162
Charge / Outpatient Day	\$ 8,199	\$ 8,667	\$ 9,162
Average Length of Stay	4.73	4.75	4.76

**Attachment 2  
 Methodist Healthcare – Olive Branch  
 Computation of Construction Cost**

<u>Cost Component</u>	<u>Total</u>	<u>New Construction</u>	<u>Renovation</u>
New Construction Cost	\$79,200,000	\$79,200,000	
Renovation Cost			\$0
Total Fixed Equipment Cost	\$4,600,000	\$4,600,000	
Total Non-Fixed Equipment Cost	\$27,875,000	\$0	
Capital Improvement	\$0		
Land Cost	\$3,000,000	\$3,000,000	
Site Preparation Cost	\$3,250,000	\$3,250,000	
<i>Fees (Architectural, Consultant, etc.)</i>	\$5,771,500	\$5,771,500	\$0
<i>Contingency Reserve</i>	\$8,245,000	\$8,245,000	\$0
<i>Capitalized Interest</i>		\$0	\$0
<i>Other: Site Expense Escalation</i>	\$250,000		
<i>Bldg. Expense Escalation</i>	\$10,783,500		
<i>Other Equip &amp; Escalation/Contingency</i>	\$8,275,000		
<i>Legal and Accounting Fees</i>	\$250,000		
<b>Total Proposed Capital Expenditure</b>	<b>\$151,500,000</b>	<b>\$104,066,500</b>	<b>\$0</b>
Square Footage	<b>276,000</b>	276,000	0
<i>Allocation Percent</i>		100.00%	0.00%
<b>Costs Less Land, Non-Fixed Eqt.&amp; Other Costs</b>	<b>\$120,625,000</b>	<b>\$101,066,500</b>	<b>\$0</b>
<b>Cost Per Square Foot</b>	<b>\$437.05</b>	<b>\$366.18</b>	<b>#DIV/0!</b>
<b>Cost per Bed (n=100)</b>	<b>\$2,010,417</b>		

Attachment 3

Market Share Analysis

<u>County</u>	<u>Pop</u>	<b>Methodist Le Bonheur</b>		<b>Alliance Healthcare</b>		<b>BMH-DeSoto</b>		<b>North Oak Reg. MC</b>		<b>Other</b>		<b>TOTAL</b>
		<u>%</u>	<u>#</u>	<u>%</u>	<u>#</u>	<u>%</u>	<u>#</u>	<u>%</u>	<u>#</u>	<u>%</u>	<u>#</u>	
DeSoto	148,614	0.63	1,955	0.00	2	0.37	1,140	0.00	12	0.00	3	3,112
Marshall	37,129	0.57	393	0.13	91	0.29	202	0.01	6	-	-	692
Tate	27,973	0.36	217	-	-	0.41	248	0.22	132	0.01	3	600
Tunica	10,304	0.25	52	-	-	0.45	92	-	-	0.30	61	205
												0
<b>TOTALS</b>	<b>224,020</b>		<b>2,617</b>		<b>93</b>		<b>1,682</b>		<b>150</b>		<b>67</b>	<b>4,609</b>

<u>County</u>	<u>Pop</u>	<b>Methodist Le Bonheur</b>		<b>Alliance Healthcare</b>		<b>BMH-DeSoto</b>		<b>North Oak Reg. MC</b>		<b>Other</b>	
		<u>%</u>	<u>#</u>	<u>%</u>	<u>#</u>	<u>%</u>	<u>#</u>	<u>%</u>	<u>#</u>	<u>%</u>	<u>#</u>
DeSoto	148,614	0.63	93,627	-	-	0.37	54,987	-	-	-	-
Marshall	37,129	0.57	21,164	0.13	4,827	0.29	10,767	0.01	371	-	-
Tate	27,973	0.36	10,070	-	-	0.41	11,469	0.22	6,154	0.01	280
Tunica	10,304	0.25	2,576	-	-	0.45	4,637	-	-	0.30	3,091
<b>TOTALS</b>	<b>224,020</b>		<b>127,437</b>		<b>4,827</b>		<b>81,860</b>		<b>6,525</b>		<b>3,371</b>

Source: January 2007 - October 2007 Aggregate Patient Origin Studies, MSDH and Methodist Le Bonheur Healthcare – Memphis Hospitals, January – September 2007.