

**Division of Health Planning
and Resource Development
February 2006**

**CON Review: HG-RC-1105-043
North Mississippi Medical Center
Construction, Renovation, and Warehouse Relocation Project
Capital Expenditure: \$3,550,000
Location: Tupelo, Lee County, Mississippi**

Staff Analysis

I. PROJECT SUMMARY

A. Application Information

North Mississippi Medical Center (NMMC) is a 650-bed general acute care, short-term medical/surgical facility located on Tupelo, Lee County, Mississippi. NMMC is a non-profit, tax-exempt, Delaware corporation licensed in Mississippi. The corporation receives governance through a 35-member Board of Directors and five corporate officers. The licensed bed capacity of the facility consists of 554 general medical/surgical beds, 33 adult psychiatric beds, 20 adult chemical dependency beds, 13 adolescent chemical dependency beds, and 30 rehabilitation beds. NMMC offers a broad scope of specialty and sub-specialty services as the major regional medical center for the area, General Hospital Service Area I (GHSA 1).

The occupancy rates, average lengths of stay (ALOS), and the Medicaid utilization rates for fiscal years 2002, 2003, and 2004 of NMMC are as follows (medical/surgical beds only):

| North Mississippi Medical Center Utilization Data 2002, 2003, and 2004 | | | |
|---|--|-------------|-------------------------------|
| Fiscal Year | Occupancy Rate (%) | ALOS (Days) | Medicaid Utilization Rate (%) |
| 2002 | 63.84 | 4.68 | 13.08 |
| 2003 | 65.15 | 4.87 | 12.84 |
| 2004 | 64.72 | 4.70 | 13.20 |
| Source: | The Division of Health Facility Licensure and Certification Application For Renewal of Hospital License | | |

B. Project Description

North Mississippi Medical Center seeks Certificate of Need (CON) authority to construct an off-site warehouse, built to NMMC specifications, to house the present Supply, Processing, and Distribution (SPD) Services Center and to renovate the resulting vacated Service Center space to meet laundry and central

kitchen needs. The project requires the construction on a four-acre site located on South Greene Street, approximately one-half mile north of the current Service Center. Approximately 30,000 square feet of the building will be dedicated to warehouse space and 3,100 square feet to a print shop, for a total involving 33,100 square feet of new construction.

Five thousand (5,000) square feet of the existing SPD center space will be renovated to house laundry and food services.

The proposed project will not require additional employees.

II. TYPE OF REVIEW REQUIRED

The Mississippi Department of Health reviews applications for construction, renovation, expansion, or capital improvement involving a capital expenditure in excess of \$2,000,000, under the applicable statutory requirements of Section 41-7-173, 41-7-191 (1) (j), and 41-7-193, Mississippi Code of 1972, as amended.

In accordance with Section 41-7-197 (2) of the Mississippi Code of 1972 Annotated, as amended, any 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 March 7, 2006.

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

A. State Health Plan (SHP)

The FY 2006 *State Health Plan* contains criteria and standards which an applicant is required to meet before receiving CON authority for construction, renovation, expansion, or capital improvement involving a capital expenditure in excess of \$2,000,000. The applicant is in substantial compliance with these criteria.

SHP Criterion 1 - Need

According to the applicant, in 1988, prior to the development of the North Mississippi Health Services (NMHS) affiliation (an affiliation among NMMC, family medicine, internal medicine, and specialty clinics serving some 22 counties in north Mississippi), NMMC constructed a 42,000 square foot Service Center on the Tupelo campus. The Service Center currently provides space for:

| | <u>Square Footage</u> |
|--|-----------------------|
| • Supply Processing & Distribution (SPD) | 11,400 sq. ft. |
| • Central Kitchen | 14,700 sq. ft. |
| • Laundry | 7,500 sq. ft. |
| • <u>Other (mechanical, Office, Toilets, etc.)</u> | <u>8,400 sq. ft.</u> |
| Total Existing Service Center | <u>42,000 sq. ft.</u> |

Over the years, the SPD function has grown to support the entire NMHS system, stretching the use of product inventory space now devoted by necessity to only short-term supply needs. In addition, missed purchase opportunities are frequent due to lack of adequate warehouse space. Frequent supplier deliveries are necessary due to insufficient storage capacity resulting in higher produce cost, loss of volume discounts, missed "sales" and heightened vulnerability during adverse weather conditions that can delay deliveries.

The applicant contends that the NMHS laundry service and central kitchen have evolved over the same path as SPD, growing from an NMMC to an NMHS system-wide critical service. The applicant asserts that the absence of adequate linen storage space causes persistently low inventory conditions, creating extreme vulnerability should key laundry equipment fail. The central kitchen needs additional cooler and freezer storage and a more secure dock system. Both these needs will be addressed by using the SPD space upon vacancy, according to the applicant. The proposed project is included in the facility's duly adopted long-range plan.

North Mississippi Medical Center presently participates in the Statewide Trauma System as a Level II emergency facility.

SHP Criterion 2 – Bed Services Transfer/Reallocation/Relocation

This project does not require the addition of beds or a change in the scope of services delivered at NMMC or NMHS. The warehouse will allow better inventory and laundry control, according to the applicant.

SHP Criterion 3 – Charity/Indigent Care

The applicant avows to provide a reasonable amount of indigent/charity care as described in the *FY 2006 State Health Plan*.

SHP Criterion 4 – Reasonable Cost

The applicant affirms that the cost of construction of an off-site warehouse will greatly enhance the efficacy of the hospital and clinic operations.

- a. Cost per Square Foot: The construction cost of \$90.00 per square foot and the renovation cost of \$40.00 per square foot do not exceed the median construction cost for similar projects in the state within the most recent 12-month period by more than 15 percent, according to the applicant.
- b. Equipment Cost: The project includes a capital expenditure of \$203,070 for non-fixed equipment cost. This cost does not exceed the median costs for equipment of similar quality by more than 15 percent, according to the applicant.

SHP Criterion 5 – Floor Area Specifics

- a. Gross Square Feet: No federal or state regulations pertaining to gross square feet of a hospital warehouse exist; therefore, the construction and renovation, both of which are off-campus, will be to the needs and specifications of NMMC, according to the applicant.
- b. Architectural Design: The application contains architectural drawings and cost estimates of the proposed project.
- c. Special Conditions: The proposed facility will not violate any zoning restrictions, according to the applicant.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual*, May 13, 2000, (as amended) addresses general criteria by which all CON applications are reviewed. The applicable criteria are as follows:

GR Criterion 1 – State Health Plan

The application conforms to Chapter XI of the FY 2006 State Health Plan pertaining to the construction, renovation, expansion, and capital improvement of a hospital.

GR Criterion 2 – Long Range Plan

The construction of a warehouse conforms to the applicant's long-range plan.

GR Criterion 3 – Availability of Alternatives

According to the applicant, the following alternatives were considered and rejected:

- Lease of a comparable facility – rejected because of limited choices and none having adequate ceiling heights.
- Expanding existing Service Center – rejected because of unavailable land for expansion. Five potential sites were reviewed before the site on Green Street was selected.

GR Criterion 4 -- Economic Viability

The application contained a statement from the financial analyst of NMMC attesting that a financial feasibility study of North Mississippi Medical Center's plan to construct an off-site supply warehouse and to renovate the existing vacated space was conducted. The financial feasibility study was undertaken to evaluate the ability of NMMC to meet operating expenses, working capital needs, and other financial requirements during the first three years after the project is complete. The study affirmed that sufficient funds to meet NMMC's operating

expenses and other financial requirements will be available, according to the Chief Fiscal Officer's statement.

GR Criteria 5 – Need for the Project

- a. Population Served: The construction of an off-site warehouse and the renovation of vacated space will provide better access to supplies and materiel needed to serve the NMMC's and NMHS's clientele.
- b. Relocation of Facility: The relocation of the warehouse will not have an adverse effect on the population presently served by NMMC and NMHS.
- c. Utilization of Similar Facilities: The construction of a warehouse at NMMC should not adversely affect other hospitals or medical clinics in the service area.
- d. Probable Effect to Similar Facilities: The construction of an off-site warehouse at NMMC will not adversely affect other hospitals or medical clinics in the service area.
- e. Community Reactions: The application contained letters of support for the proposed project. No letters of opposition were received.

GR Criteria 6 – Access to the Facility

The proposed construction of an off-site warehouse will allow NMMC to better serve its client population through an expanded support facility. No change of the scope of service of NMMC is proposed nor will any medical services be provided from the warehouse, according to the applicant.

GR Criteria 7 – Information Requirement

The applicant states that it will record and maintain the requested information stated in the above criterion and make it available to the Mississippi Department of Health within 15 working days of request.

GR Criteria 8 – Relationship to Existing Health Care System

According to the applicant, NMMC is a not-for-profit community owned medical center that is committed and expected to provide services to the entire service area. The proposed warehouse will allow the NMMC to carry out that function at lesser cost. The warehouse will have no effect, either positively or negatively, on the existing health industry.

GR Criteria 9 – Availability of Resources

The proposed project does not involve a personnel increase.

GR Criteria 14 – Construction Project

The application contains cost estimates, schematic drawings, and assurances that the construction of the off-site warehouse and renovation of vacated space

will conform to accepted norms. The resulting warehouse will not require licensure. The estimated cost of new construction (using the Department's method of calculating square foot cost) is \$90 per square foot. The estimated renovation cost is \$40 per square foot.

GR Criteria 16 – Quality of Care

According to the applicant, NMMC is known historically as a provider of quality care. The applicant contends that this recognition is apparent through high scores in patient satisfaction surveys, clinical outcome measures, and recent re-accreditation by JCAHO with a score of 92, easily placing NMMC in the upper tier of accredited hospitals.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

The total estimated capital expenditure of \$3,550,000 is allocated as follows:

| | | | Percent |
|----|--|--------------------|---------------|
| a. | Construction Cost -- New | \$ 2,400,000 | 67.60 |
| b. | Construction Cost -- Renovation | 200,000 | 5.64 |
| c. | Capital Improvements | 15,000 | 0.42 |
| d. | Total Fixed Equipment Cost | 0 | 0 |
| e. | Total Non-Fixed Equipment Cost | 203,070 | 5.72 |
| f. | Land Cost | 340,000 | 9.58 |
| g. | Site Preparation Cost | 0 | 0 |
| h. | Fees (Architectural, Consultant, etc.) | 250,000 | 7.04 |
| i. | Contingency Reserve | 141,930 | 4.00 |
| j. | Capitalized Interest | 0 | 0 |
| k. | Other Cost | 0 | 0 |
| l. | Total Proposed Capital Expenditure | <u>\$3,550,000</u> | <u>100.00</u> |

The construction cost per square foot is \$90. Compared to *RSMeans' Building Construction Cost Data 63rd Annual Edition* construction cost per square foot for a warehouse is suggested at \$34, \$49.50, and \$68.50 for the first quadrant, median, and third quadrant, respectively. The projected cost exceeds the RSMeans' median but is within the median for similar projects received by the Department within the most recent 12- month period.

B. Method of Financing

The proposed project will be financed through accumulated cash reserves of North Mississippi Medical Center.

C. Effects on Operating Cost

The application projects the following expense and revenue results from operation for the first three years following completion of the project:

| North Mississippi Medical Center Warehouse Construction and Relocation Three Year Projected Operation Statement | | | |
|--|----------------------------|----------------------------|---------------------------|
| | <u>Year 1</u> | <u>Year 2</u> | <u>Year 3</u> |
| Patient Revenue | | | |
| Inpatient Revenue | \$ 0 | \$ 0 | \$ 0 |
| Outpatient Revenue | <u>0</u> | <u>0</u> | <u>0</u> |
| Total Patient Revenue | <u>0</u> | <u>0</u> | <u>0</u> |
| Deduction form Revenue: Contractual Adjustments | <u>0</u> | <u>0</u> | <u>0</u> |
| Net Patient Revenue | <u>0</u> | <u>0</u> | <u>0</u> |
| Expense | | | |
| Salaries and Wages | 0 | 0 | 0 |
| Benefits | 0 | 0 | 0 |
| Supplies and Other Expenses | 0 | 0 | 0 |
| General Services | 58,647 | 61,393 | 64,235 |
| Administrative Services | 1,655 | 1,713 | 1,773 |
| Interest | 0 | 0 | 0 |
| Depreciation and Amortization | 124,871 | 124,871 | 124,871 |
| Bad Debts | <u>0</u> | <u>0</u> | <u>0</u> |
| Total Operating Expense | <u>185,173</u> | <u>187,977</u> | <u>190,879</u> |
| Net Income (Loss) | <u>\$ (185,173)</u> | <u>\$ (187,977)</u> | <u>\$(190,879)</u> |

D. Cost to Medicaid

The cost of the proposed project to the various payors is listed below:

| North Mississippi Medical Center Warehouse Construction and Relocation Cost Impact to Various Payors | | |
|---|---|---|
| | Increased Annual Operating Expense for First Full Year | Total Increased Annual Operating Expense (Over the Life of the Project) |
| Medicaid | \$ 21,665 | \$ 58,753 |
| Medicare | \$ 99,993 | \$271,169 |
| Commercial/Other | \$ 50,552 | \$137,091 |
| Self Pay | <u>\$ 12,963</u> | <u>\$ 35,154</u> |
| Total | <u>\$ 185,173</u> | <u>\$502,167</u> |

V. RECOMMENDATION OF OTHER AFFECTED AGENCIES

The Division of Medicaid takes no position on this application.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the criteria and standards for construction, renovation, and expansion projects as contained in the FY 2006 Mississippi State Health Plan; Chapter 8 of the *Mississippi Certificate of Need Review Manual*, Revised 2000; and all adopted rules, procedures, and plans of the Mississippi Department of Health.

The Division of Health Planning and Resource Development recommends approval of this application submitted on behalf of North Mississippi Medical Center for the construction and relocation of a warehouse and the renovation of existing space used for laundry and food services.