

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

**CON Review: HG-RC-1205-044
Delta Regional Medical Center
Renovation, Expansion, and Equipment Acquisition
Capital Expenditure: \$10,691,000
Location: Greenville, Washington County, Mississippi**

Staff Analysis

I. PROJECT SUMMARY

A. Application Information

Delta Regional Medical Center (DRMC) operates as a county owned, not-for-profit, community hospital under the provisions of Mississippi Code Annotated §14-13-1 et. seq. and receives policy and overall governance from a seven-member community-representative board appointed by the Washington County Board of Supervisors.

The Division of Health Facility Licensure and Certification licenses DRMC to operate up to 398 beds at its main and west campuses. The location of these beds by type is as follows:

Delta Regional Medical Center Bed Allocation						
	Main Campus		West Campus		Total	
Bed Type	Licensed Bed Capacity	Set Up/ Staffed	Licensed Bed Capacity	Set Up/Staffed	LBC	Set up Staffed
Medical Surgery	221	130	137	45	358	175
Adult Psychiatric	9	9	0	0	9	9
Adult CDU	7	7	0	0	7	7
Rehabilitation	<u>24</u>	<u>24</u>	<u>0</u>	<u>0</u>	<u>24</u>	<u>24</u>
Total	261	170	137	45	398	215

The occupancy rates, average lengths of stay (ALOS), and Medicaid utilization rates for the three most recent fiscal years at DRMC are as follows (medical/surgical beds only):

Delta Regional Medical Center Utilization Data			
Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2002	35.77	4.85	19.01
2003	36.30	4.43	20.85
2004	40.05	4.50	22.21

Source: The Division of Health Facility Licensure and Certification, MDH

Delta Regional Medical Center holds certification to participate in both the Medicare and Medicaid programs and is accredited by the Joint Commission on Accreditation of Healthcare Organizations.

In April of 2005, Delta Regional Medical Center and King's Daughters Hospital-Greenville finalized a merger agreement. Beginning October 1, 2005, all acute care and emergency services from both facilities were consolidated at the Delta Regional Medical Center main campus facility. According to the applicant, the consolidation, while increasing operational efficiency and decreasing the operating cost for these services, is not easily accomplished without specific changes in the main campus facility to accommodate the volume. Additionally, the consolidation of the two hospitals provides DRMC an opportunity to focus on upgrading key service lines, major medical equipment, and information systems, according to the applicant.

B. Project Description

The applicant seeks Certificate of Need (CON) authority to obligate capital expenditure in the amount of \$10,691,000 to finance the following:

- Convert the burn unit to a dedicated cardiovascular unit;
- Expand and renovate the emergency department;
- Expand and renovate respiratory therapy;
- Expand and renovate obstetrics and nursery;
- Expand and renovate material management;
- Renovate space for an additional CT scanner;
- Upgrade information system and purchase software;
- Purchase telemetry and ventilators;
- Purchase 64-slice CT scanner; and
- Purchase additional angiography equipment.

No change in the hospital's licensed bed capacity or scope of service will result from this project. Six additional registered nurses will be employed with an additional first-year personnel cost of \$228,000, according to the applicant.

The Division of Health Facility Licensure and Certification has approved the site of this project.

II. TYPE OF REVIEW REQUIRED

The Mississippi Department of Health reviews applications for a CON for the addition of beds to a health care facility and projects 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, subparagraph (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

The proposed renovation and equipment purchases are consistent with the long-range plan of DRMC. This plan includes the development of a modern and comprehensive system of care provided through the establishment of centers of excellence at DRMC. The proposed renovation and equipment purchases will complement those plans, according to the applicant. Delta Regional Medical Center serves as the only Level II Trauma Center in Northwest Mississippi. Following the completion of this project, DRMC will continue to operate a Level II Trauma Center, according to the applicant.

SHP Criterion 2 – Bed Service Transfer/Reallocation/Relocation

The proposal does not require the addition of beds nor a change in the present scope of services.

SHP Criterion 3 – Uncompensated Care

The applicant affirms that it will continue to provide a reasonable amount of indigent/charity care as described in Chapter I of the *FY 2006 Mississippi State Health Plan*.

SHP Criterion 4 – Reasonable Cost

- a. Cost per Square Foot: The cost for the proposed renovation and equipment purchases will be reasonable and consistent with similar projects recently undertaken in the Mississippi Delta region. However, the cost of construction materials, labor, and equipment has recently increased due to the impact of the 2004-2005 hurricane seasons, according to the applicant. The application contained supporting documentation and a cost estimate signed by an architect licensed to do business in Mississippi.
- b. Equipment Cost: According to the applicant, the equipment cost will not exceed the median costs for similar quality by more than 15 percent of equipment cost of projects submitted to the Department during the most recent six-month period.

SHP Criterion 5 – Floor Area Specifics

- a. Gross Square Footage: The areas to be renovated comply with all state and national norms for similar projects and comply with all licensing standards contained in the most recent version of the *Guides for the Design and Construction of Hospital and Health Care Facilities*, according to the applicant.
- b. Architectural Restraints: The architectural design of the main campus of DRMC will not place any restraints on the proposed project.
- c. Special Considerations Due to Local Conditions: According to the applicant, the cost of construction materials, labor, and equipment has recently increased due to the impact of the 2004-2005 hurricane seasons. This affects the cost of this project and its consideration is required by 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:

SHP 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 – Long Range Plan

The application conforms to Delta Regional Medical Center's long range plan duly adopted by the Board of Trustees.

GR Criterion 3 – Availability of Alternatives

According to the applicant, the project, as proposed, is the most efficient and cost-effective method of providing for the future delivery of health care services to the patient community served by Delta Regional Medical Center. The consolidation of King's Daughters Hospital and Delta Regional Medical Center requires that renovations be undertaken and equipment be purchased to ensure that adequate clinical space and ancillary and support space is available and that out-of-date equipment is upgraded or replaced.

GR Criterion 4 -- Economic Viability

- a. Proposed Charges: No new charges will be associated with this project, according to the applicant.
- b. Projected Utilization Level: The applicant expects no increase in the utilization of the main and the west campuses as a result of this project.

- c. Financial Feasibility Study: The application contained the results of a financial feasibility study conducted by the chief financial officer (CFO) of Delta Regional Medical Center. In the opinion of the CFO, the proposed project is feasible and is in the best interest of not only the hospital, but of the entire Delta area.

GR Criteria 5 – Need for the Project

- a. Access by the Population Served: All residents of the area, particularly low income persons, racial and ethnic minorities, women, handicapped persons, other underserved groups, and all the elderly have access to the services offered by Delta Regional Medical Center, according to the applicant.
- b. Relocation of Services: According to the applicant, this project will not involve the relocation of any services or impact the utilization of like facilities since Delta Regional Medical Center is the only acute care hospital in Washington County.
- c. Probable Effect on Like Facilities in the Area: According to the applicant, there will not be adverse effect on like facilities.
- d. Current and Projected Effect on Other Facilities in the Area: This proposal simply involves the renovation of existing space, the expansion of existing services, and the purchase of equipment and management information systems.
- e. Community Reaction: The application contains 19 letters of support. No letters of opposition have been received.

GR Criteria 6 – Access to Facility or Service

- a. Medically Underserved Population: The following table provides a comparison of underserved persons in the service area with the current and projected distribution within the hospital.

Delta Regional Medical Center Underserved Population Distribution				
Underserved Population	DRMC 2004	Service Area Distribution	Year 1	Year 2
Medicaid	32.5%	39.5%	33.0%	33.0%
African-American	68.0%	67.0%	67.0%	62.0%
<150% of FPG	43.4%	48.0%	48.0%	44.0%
Elderly	37.5%	11.0%	38.0%	38.0%

Source: Project Application

- b. Performance in Meeting Federal Obligations: According to the application, Delta Regional Medical Center is under no federal obligations to provide uncompensated care.
- c. Unmet Needs to be Served by Applicant: The following table provides an estimate of the distribution of Medicare and Medicaid patients at Delta Regional Medical Center.

Delta Regional Medical Center Medicare and Medicaid Distribution			
	2004	Year 1	Year 2
Medicare	37.5%	46.5%	46.0%
Medicaid	32.5%	21.0%	21.0%

Source: Project Application

- d. Range of Access: DRMC is the facility of choice for a majority of the residents of Washington County. Accessibility is promoted through cost containment and reducing charges when possible and encouraging facility use regardless of economic status, ethnicity, gender, or age, according to the applicant. The applicant contends that the future of health care lies not only in disease prevention and health maintenance, but in the provision of a comprehensive system of care. DRMC is constantly striving to provide programs and services to its community that can help patients maintain and improve the quality of their health. The hospital provides a variety of community outreach programs and educational seminars.

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

The renovation of space at DRMC and expansion of existing services will not have any adverse effect on any existing health care facility within the service area, according to the applicant.

GR Criteria 9 – Availability of Resources

The proposed project will increase the nursing staff by six registered nurses (from 212 to 218). The applicant does not expect any problem in recruitment from the local area. According to the applicant, Delta Regional Medical Center has the financial and human resources to implement this project without increasing charges at its facility or detrimentally affecting other health care facilities in the area.

GR Criteria 10 – Relationship to Ancillary or Support Services

According to the applicant, the proposed project will not have any adverse effect on any ancillary or support system.

GR Criteria 14 – Construction Project

The spaces involved in this project are designed to be constructed with the objective of maximizing cost containment, protection of the environment, and conservation of energy. There will be no impact on charges because of construction costs or financing charges, according to the applicant. The application contains cost estimates, schematic drawings, and assurances that the construction and renovation project will conform to all federal, state, and local standards. The estimated cost per square footage (using the Department's method of calculating square foot cost) for new construction and renovation are \$139.43 and \$195.81, respectively.

GR Criteria 16 – Quality of Care

Applicant asserts that it accredited by the Joint Commission on Accreditation of Healthcare Organizations and provides quality care to all of its patients.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

The total estimated capital expenditure of \$10,691,000 is allocated as follows:

			Percent
a.	Construction Cost -- New	\$ 647,500	6.06
b.	Construction Cost -- Renovation	5,442,500	50.90
c.	Capital Improvements	0	0
d.	Total Fixed Equipment Cost	0	0
e.	Total Non-Fixed Equipment Cost	3,852,000	36.03
f.	Land Cost	0	0
g.	Site Preparation Cost	100,000	0.94
h.	Fees (Architectural, Consultant, etc.)	464,250	4.34
i.	Contingency Reserve	154,750	1.45
j.	Capitalized Interest	0	0
k.	Other Cost	<u>30,000</u>	<u>0.28</u>
l.	Total Proposed Capital Expenditure	<u>\$10,691,000</u>	<u>100.00</u>

	Square Footage	Estimated Cost (s/f)
New Construction	5,920	\$ 139.43
Renovation	30,711	\$ 195.81
Total Square Footage of Present Facility	22,770	

The estimated cost of new construction of \$139.43 is less than the lower quadrant cost level suggested by *RSMMeans Building Construction Cost Data, 63rd Annual Edition* of \$152, \$181, and \$275 for the lower quadrant, median, and the upper quadrant, respectively.

B. Method of Financing

The cost of this application will be financed through funds generated from a tax-exempt revenue bond issue. The application contained a letter from Merrill Lynch & Company agreeing to serve as mortgage and investment banker to DRMC and to provide the required financing through a loan.

C. Effects on Operating Cost

Delta Regional Medical Center's three-year projected operating statement is contained in Attachment I of this staff analysis. The applicant projects a net income of \$4,394,406, \$5,683,483, and \$6,651,086 for year one, year two, and year three, respectively.

D. Cost to Medicaid

The first year operational cost of Delta Regional Medical Center (contained in the following table) indicates that Medicaid will be payor for approximately 16.6 percent of the total patient revenue.

Delta Regional Medical Center Cost to Payors During First Year of Operation		
Payor	Utilization Percentage	First Year Cost
Medicaid	16.6	\$ 52,785,589
Medicare	61.2	\$ 194,607,112
Other	<u>22.2</u>	<u>\$ 70,592,776</u>
Total	100.0	\$ 317,985,477

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 Delta Regional Medical Center for renovation, expansion, acquisition of equipment as itemized below:

- Convert the burn unit to a dedicated cardiovascular unit;
- Expand and renovate the emergency department;
- Expand and renovate respiratory therapy;
- Expand and renovate obstetrics and nursery;
- Expand and renovate material management;
- Renovate space for an additional CT scanner;

- Upgrade information system and purchase software;
- Purchase telemetry and ventilators;
- Purchase 64-slice CT scanner; and
- Purchase additional angiography equipment.

Attachment I

Delta Regional Medical Center Three-Year Operating Statement			
Revenue	Year 1	Year 2	Year 3
Patient Revenue:			
Inpatient	\$174,866,909	\$183,610,254	\$192,790,767
Outpatient	<u>143,118,568</u>	<u>150,274,496</u>	<u>157,788,221</u>
Total Patient Revenue	\$317,985,477	\$333,884,750	\$350,578,988
Deduction From Revenue			
Contractual Agreement	\$159,753,064	\$167,740,717	\$176,127,753
Bad Debt	<u>28,634,083</u>	<u>30,065,787</u>	<u>31,569,077</u>
Total Deductions From Revenue	\$188,387,147	\$197,806,504	\$207,696,830
Net Patient Revenue	129,598,330	136,078,247	142,882,159
Other Revenue	<u>1,595,000</u>	<u>1,634,875</u>	<u>1,675,747</u>
Net Revenue	131,193,330	137,713,122	144,557,906
Expenses			
Operating Expenses:			
Salaries and Wages	59,860,253	61,656,061	64,720,565
Benefits	8,040,213	8,281,419	8,693,033
Contract Labor	1,618,273	1,618,273	1,618,273
Supplies	21,277,390	22,722,665	24,213,449
Medical Specialist Fees	253,200	260,796	268,620
Purchased Services	11,907,661	12,503,044	13,128,196
Utilities	1,760,580	1,813,397	1,867,799
Repairs and Maintenance	4,513,108	4,648,501	4,787,956
Insurance	3,002,363	3,092,434	3,185,207
Other Operating Expenses	<u>8,145,883</u>	<u>8,390,259</u>	<u>8,641,967</u>
Total Operating Expense	\$120,378,924	\$124,986,849	\$131,125,065
Operating Margin	\$ 10,814,406	\$ 12,726,271	\$ 13,432,840
Non-Operating Expenses:			
Depreciation	\$ 5,150,000	\$ 5,175,464	\$ 5,001,380
Interest	<u>1,270,000</u>	<u>1,867,324</u>	<u>1,780,374</u>
Total Non-Operating Expenses	\$ 6,420,000	\$ 7,042,788	\$ 6,781,754
Net Income	<u>\$ 4,394,406</u>	<u>\$ 5,683,483</u>	<u>\$ 6,651,086</u>
Total Patient Days			
	53,290	54,356	55,443
Average Daily Census			
	146	149	152
Occupancy Rate (Percentage)			
	36.5	37.2	38.0
Cost/Patient Day			
	\$2,258.90	\$2,300.30	\$2,365.04
Charge/Patient Day			
	\$5,897.35	\$6,142.56	\$6,323.23