

**DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT  
MARCH 2006**

**CON REVIEW: HG-CO-1205-052  
JEFF ANDERSON REGIONAL MEDICAL CENTER  
COST OVERRUN ON CON #R-0659 (CONSTRUCTION/RENOVATION  
OF MEDICAL OFFICE BUILDING)  
APPROVED CAPITAL EXPENDITURE: \$2,582,412  
ADDITIONAL CAPITAL EXPENDITURE: \$578,788  
REVISED CAPITAL EXPENDITURE: \$3,161,200  
LOCATION: MERIDIAN, LAUDERDALE COUNTY, MISSISSIPPI**

**STAFF ANALYSIS**

**I. PROJECT SUMMARY**

**A. Applicant Information**

Jeff Anderson Regional Medical Center (JARMC) is a non-profit, 260-bed general acute care hospital. The hospital is governed by a seven-member Board of Trustees. Jeff Anderson Regional Medical Center is accredited by the Joint Commission on the Accreditation of Healthcare Organizations and licensed by the Mississippi Department of Health.

The occupancy rates, average lengths of stay (ALOS) and the Medicaid utilization rates for the medical surgical beds (260) at JARMC are as follows for the three most recent fiscal years:

**Jeff Anderson Regional Medical Center  
Utilization Data**

<b>Fiscal Year</b>	<b>Occupancy Rate (%)</b>	<b>ALOS (Days)</b>	<b>Medicaid Utilization Rate (%)</b>
2002	57.59	5.26	10.70
2003	58.16	5.36	10.79
2004	59.49	5.37	11.58

**Source:** Division of Health Facilities Licensure and Certification, Mississippi Department of Health (MDH).

**B. Project Background**

Jeff Anderson Regional Medical Center received CON No. R-0659 on October 4, 2004, for construction/renovation of a medical office building. The capital expenditure authorized by CON No. R-0659 was \$2,582,412. The expansion included 10,460 square feet of new construction and 4,176 square feet of renovation to provide appropriate medical office space for staff physicians by adding an additional floor to an existing medical office building located adjacent to the hospital.

**C. Project Description**

JARMC requests Certificate of Need (CON) authority for a cost overrun of \$578,788 on CON No. R-0659. The applicant states that the cost overrun is attributed to a significant increase in the cost of materials. The cost overrun, if approved, will increase the cost of the project to \$3,161,200. The project was scheduled for completion on December 22, 2005; however, applicant must acquire approval for a cost overrun prior to making the additional expenditure.

**II. TYPE OF REVIEW REQUIRED**

The original project was reviewed in accordance with Section 41-7-191, subparagraph 1(j) of the Mississippi Code 1972, Annotated, as amended. The State Health Officer reviews all projects for cost overrun in accordance with duly adopted procedures and standards of the Mississippi 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 March 23, 2006.

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

**A. State Health Plan**

The *State Health Plan (SHP)* contains criteria and standards which an applicant is required to meet prior to undertaking major construction, renovation, expansion, capital improvements, replacement of health care facilities, and addition of hospital beds. The original application was in substantial compliance with applicable criteria and standards stated in the *SHP* in effect at the time of the original application. This application for a cost overrun continues to be in compliance with the *State Health Plan*.

**B. General Review Criteria**

Chapter 8 of the *Mississippi Certificate of Need Review Manual, 2000 Revision*, addresses general criteria by which all CON applications are reviewed. The project was in substantial compliance with general review criteria at the time of original submission, and continues to be in substantial compliance with general review criteria.

**IV. FINANCIAL FEASIBILITY**

**A. Capital Expenditure Summary**

	<b>Original Approval</b>	<b>Revised Capital Expenditure</b>	<b>Increase/ (Decrease)</b>
New Construction	\$ 1,687,668	\$ 2,052,304	\$364,636
Renovation	\$ 626,400	\$ 840,552	\$214,152
Site Preparation	\$ 75,000	\$ 75,000	0
Fees (Architectural, etc.)	\$ 143,344	\$ 143,344	0
Contingency Reserve	\$ 50,000	\$ 50,000	0
<b>Total Capital Expenditure</b>	<b>\$ 2,582,412</b>	<b>\$ 3,161,200</b>	<b>\$578,788</b>

The original capital expenditure was proposed for the construction of 10,560 square feet of new space and 4,176 square feet of renovation to an existing medical office building located adjacent to the hospital. According to the applicant, this cost overrun is attributed to a significant increase in the cost of materials. The additional capital expenditure is represents approximately a 22% cost overrun.

**B. Method of Financing**

According to the applicant, all expenditures associated with this project were funded with cash reserves.

**C. Effect on Operating Cost**

Jeff Anderson Regional Medical Center submits the following expenses, revenues, and utilization for the first year of operation of the project: (The only additional cost associated with the cost overrun is depreciation in the amount of \$90,320, an increase of \$16,537).

	<b>Year 1</b>
<b><u>Revenues</u></b>	
Gross Revenue	\$284,531,200
Deductions	\$162,357,900
Net Pt. Service Rev.	\$122,173,300
Other Revenue	\$ 10,173,877
<b>Total Net Revenues and Other Support</b>	<b><u>\$132,347,177</u></b>
<b><u>Expenses</u></b>	
Salaries & Wages	\$ 39,727,198
Fringe Benefits	\$ 8,229,221
Housekeeping	\$ 1,719,006
Pharmacy & Supplies	\$ 30,159,802
Plant Operations/Maint.	\$ 3,401,683
General & Admin.	\$ 17,094,259
Depreciation	\$ 9,199,000
Bad Debts & Charity	<u>\$ 16,161,324</u>
<b>Total Expenses</b>	<b><u>\$125,691,493</u></b>
<b>Net Income</b>	<b><u>\$ 6,655,684</u></b>

**D. Cost to Medicaid/Medicare**

According to JARMC, the proposed cost overrun project shall have no effect on the hospital's Medicaid, Medicare or other patients.

**V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES**

The Division of Medicaid was provided a copy of this application for review and comment. According to the Division of Medicaid, outpatient services are paid as outlined in the **State Medicaid Plan**. The Division of Medicaid took no position on the proposed cost overrun project.

**VI. CONCLUSION AND RECOMMENDATION**

The project was in substantial compliance with the criteria and standards for the construction, renovation, expansion, capital improvements, replacement, and addition of hospital beds as contained in the *State Health Plan* in effect at the time of the original application; the *Mississippi Certificate of Need Review Manual, 2000 Revision*; and duly adopted rules, procedures and plans of the Mississippi Department of Health. The proposed cost overrun does not change the overall objectives of the original project.

The Division of Health Planning and Resource Development recommends approval of this application submitted by Jeff Anderson Regional Medical Center for cost overrun of CON #R-0659.