

**DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
FEBRUARY 2007**

**CON REVIEW: HG-RC-1106-034
GRENADA LAKE MEDICAL CENTER
RENOVATION/CONSTRUCTION FOR THE
REPLACEMENT OF 56 ACUTE CARE BEDS
CAPITAL EXPENDITURE: \$23,000,000
LOCATION: GRENADA, GRENADA COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Grenada Lake Medical Center (GLMC) is a public not-for-profit hospital owned by Grenada County. Grenada Lake Medical Center is a 156-bed short term acute care hospital governed by a seven member Board of Trustees. The hospital is accredited by the Joint Commission on the Accreditation of Healthcare Organizations and licensed by the Mississippi Department of Health (MDH).

The occupancy rates, average lengths of stay (ALOS), and the Medicaid utilization rates for Grenada Lake Medical Center are as follows for the years 2003 through 2005:

**Grenada Lake Medical Center
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2003	48.74	5.76	9.94
2004	44.84	5.53	19.03
2005	33.77	4.48	20.95

Source: Division of Health Facilities Licensure and Certification, MDH.

B. Project Description

Grenada Lake Medical Center is requesting Certificate of Need (CON) authority for renovation and construction for the replacement of 56 acute care beds at the hospital. The project consists of new construction, and renovation, for replacement of 56 general acute care beds (five of which are ICU beds). Four existing acute care beds will be added to the existing five ICU beds to have a new nine bed unit on project completion.

The proposed project will encompass a total of 74,033 square feet of space, to include 52,190 square feet of new construction and renovation of 21,843 square feet of existing space.

A description of the project by floor space is as follows:

- **First Floor:** On the existing floor of the hospital, renovations will occur in the dietary, cafeteria and medical information departments to upgrade food service operations and meet the space needs of the medical information service for record processing and storage.
- **Second Floor:** On the second level, there will be 15 new replacement medical/surgical patient rooms added on the north face of the existing hospital connected to the main building via connector near the present elevator tower. On the west corridor several current patient rooms will be combined to create a second newborn nursery for use as an alternative nursery during times of low census to provide for terminal cleansing of the existing nursery. Additionally, there will be 11 replacement OB/GYN general acute beds in a new two-story tower on the west side of the existing building.
- **Third Floor:** On this floor, there will be 15 new replacement medical/surgical patient rooms. These rooms will be connected to the existing facility on the second floor near the present elevator tower. On the west end of the existing building, there will be a new 9-bed ICU unit, which includes 5 existing ICU beds and the reclassification of 4 additional acute care beds. This will replace the existing ICU facility which will be renovated as nursing and family support space. Renovations on the third floor will provide for an expanded area to provide acute dialysis services for patients who have been admitted to the hospital for other health reasons, but will need dialysis support while in the hospital. Other former patient rooms will be converted to office space for various administrative functions.
- **Fourth Floor:** On this floor, there will be 15 replacement general acute rooms connected to the existing hospital as on the second and third floor.

According to the applicant, this project provides replacement of general acute beds and some increased space for ambulatory care areas. The change in the ambulatory care area provides for a better flow of patients by taking the existing gift shop area and creating more patient cubicles for preparation prior to procedures and recovery following procedures. There will be no increase in the number of operating rooms/suites as a result of the proposed project, and there will be no increase in current licensed capacity and no new services involved. Grenada Lake Medical Center asserts that the proposed new patient facilities will enhance the hospital's image in the market and make it more appealing as a practice location for future medical staff.

A breakdown of areas of the proposed new construction and renovation of the project is as follows:

New Construction Areas

New Four Story Addition at Main Entrance	New Construction Sq. Ft.
Ground Level	680
Second Floor	10,413
Third Floor	10,413
Fourth Floor	10,413
Penthouse	228
Storage Building	5,000
Boiler Room, Ground floor, between Emergency and Morgue	1,680
Electrical Room and Ground Room	450
Three Story Addition West of Emergency	
Ground Level	320
Second Floor	5,260
Third Floor	5,565
Penthouse	160
Medical Record	1,146
Food Services	462
Total New Area	<u>52,190</u>

Renovation Areas

Food Services	1,262
Medical Records	1,151
Outpatient (Emergency)	648
Radiology	500
Former ICU	1,250
Backup Nursery	400
Parents Room, Pediatrics	200
Ambulatory Care	600
Bridge Connection (on 3 Floors)	612
Elevator (4 floors + pump room)	960
Former Bed Rooms	13,260
Miscellaneous	1,000
Total Renovated	<u>21,843</u>

Grenada Lake Medical Center indicates that the proposed project will also provide a new patient-only elevator to service patients mainly from the radiology and emergency room area. All replacement patient rooms will have improved proximity to their nursing stations, be larger to accommodate today's technology, and each will have its own bath and toilet facilities. Additionally, the current plans anticipate the provision of several rooms on each floor with negative air pressure to accommodate patients who have respiratory health issues.

The applicant asserts that on each of the new floors there will be increased storage for hospital equipment, such as bed scales, stretchers, patient lifts, and wheel chairs, and there will be new nurse call systems to improve patient and nurse communications.

Grenada Lake Medical Center projects the need for 14.8 full-time equivalent personnel at an annual cost of \$602,720.

The total proposed capital expenditure of \$23,000,000 is composed of new construction (58 percent), renovation (12 percent), capital improvement (3 percent), fees (5 percent), contingency reserve (10 percent), capital interest (3 percent), other (3 percent), fixed equipment (3 percent) and non-fixed equipment (3 percent). See capital expenditure summary, page 11. The applicant proposes to finance \$20,000,000 of the proposed capital expenditure with a revenue bond, and pay the remaining balance of \$3,000,000 from cash reserves.

According to MDH Division of Health Facilities Licensure and Certification, the site is acceptable for the intended use for the proposed project.

According to the applicant, the anticipated date for obligation of the proposed capital expenditure is April 2007, and date for completion of the proposed project is December 2008.

II. TYPE OF REVIEW REQUIRED

This project is reviewed in accordance with Section 41-7-191, subparagraph (1)(j), Mississippi Code of 1972, Annotated, as amended, and duly adopted rules, procedures, plans, criteria and standards of the Mississippi 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 7, 2007.

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

A. State Health Plan (SHP)

The *FY2007 State Health Plan* 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. This application is in substantial compliance with applicable criteria and standards.

SHP Criterion 1 – Need

Grenada Lake Medical Center proposes to construct a new four story tower on the north face of the existing facility. The proposed project will provide for improved patient accommodations with connections on each level to the existing hospital. The new ICU will replace and upgrade the existing ICU with construction to the latest standards. All patient rooms will have good sight lines to the nurse's station. The applicant expects that improvement of the patient rooms will increase patient satisfaction and improve access to patients by hospital staff. The renovation of the second floor will provide a small overflow nursery for volume increases and during times of low census, as well as the opportunity to provide better access for cleaning.

Grenada Lake Medical Center believes that the project will provide contemporary accommodations to patients in the service area. Patient flow will be improved both vertically and horizontally. Patients will have improved access to nurses due to more centralized nursing stations.

SHP Criterion 2 – Bed Service Transfer/Reallocation/Relocation

According to the applicant, this project does not involve the transfer/reallocation or relocation of beds. Four current general acute beds will be allocated to intensive care, increasing ICU capacity from five beds to nine.

SHP Criterion 3 – Uncompensated Care

Grenada Lake Medical Center asserts that it will continue to provide a reasonable amount of indigent/charity care, as described in the *Plan*. Grenada Lake Medical Center projects that 2.0 percent of its net revenue will be charity care.

SHP Criterion 4 –Cost of Project

- a. **Cost per Square Foot:** Grenada Lake Medical Center believes this project will be consistent with cost of similar projects. The cost per square foot of

new construction is \$340.61 and the cost of renovation is \$185.12 per square foot for the project. The cost of the project is above the high end of the range (\$300) for new construction of hospitals listed in the *Means Building Construction Cost Data, 2007 Edition*. The applicant submits that the cost for new construction is projected higher due to the rapid inflation in the construction industry and the uncertainty of pricing due to the movement of the construction trades to the area of the state impacted by Katrina.

- b. **Equipment Cost:** The applicant believes that the infrastructure costs of the project are similar to other hospital projects of this size. The hot water, chilled water, plumbing, and electrical services are typical to like projects and will be purchased on a competitive bid basis. The proposed project includes a new elevator, pneumatic tube system and nurse call system.

SHP Criterion 5 – Floor Area and Space Requirements

- a. **Gross Square Footage:** The applicant states that the proposed project consists of 52,190 square feet of new construction and 21,843 square feet of renovation. The applicant asserts that its goal is to provide an attractive environment to area patients, one that will be competitive with other area facilities.
- b. **Architectural Restraints:** The applicant submits that the architectural design of the existing building does not place any unusual restraints on the proposed project.
- c. **Special Considerations:** According to Grenada Lake Medical Center, no special considerations are requested with regard to the proposed project.

SHP Criterion 6 – Renovation versus Replacement

Grenada Lake Medical Center asserts that the cost of the proposed project does not exceed 85 percent of the cost of a replacement facility of a similar size. Based on the median cost range for hospital construction (\$203) as contained in the *Means Building Construction Cost Data, 2007 Edition*, the cost to replace a facility of this size will be \$31,668.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, Revised November 12, 2006*, addresses general criteria by which all CON applications are reviewed. This application is in substantial compliance with general review criteria.

GR Criterion 1 – Consistency with the State Health Plan

The project is consistent with the *FY 2007 State Health Plan*. According to the

applicant, the proposed project will provide contemporary accommodations to patients in the service area. Patient flow will be improved both vertically and horizontally. Patients will have improved access to nurses due to more centralized nursing stations.

GR Criterion 2 - Long Range Plan

The applicant states that the project is consistent with the hospital goal of assuring that members of its community have access to high quality health care. The applicant believes that not only will this facility allow GLMC to better meet the needs of its current patients and medical staff, it will enhance the organization's ability to recruit new professionals to its community and retain a larger portion of the existing market. The project was considered and supported at the staff, medical staff, Board of trustee levels, and the Board of Supervisors.

GR Criterion 3 – Availability of Alternatives

According to Grenada Lake Medical Center, the option of room renovation in place was considered but it was quickly determined that the existing rooms were much too small and that renovation in place would be very disruptive to the existing patient population. The hospital evaluated the location of these facilities on both the east side and the west side of the existing facilities. Both of these options were less desirable from the standpoint of patient and staff circulation and patient proximity to existing ancillary services. Grenada Lake Medical Center believes that this option will allow for the construction of replacement beds with minimal impact and disruption of existing operations. The new construction envelopes are located to the exterior of the existing building and in areas where there is sufficient space to stage construction materials.

The applicant believes that this approach provides GLMC with an up to date facility that will assist with the retention of patients in the market and improve its ability to recruit professionals, both medical center staff as well as physicians. The applicant submits that it is clearly less expensive than building a replacement facility and brings patient accommodations in line with the quality of the ancillary facilities added to the hospital some years ago.

GR Criterion 4 - Economic Viability

The applicant's three-year projected operating statement shows a loss for the first three years of operation for the project. However, GLMC's financial statements indicate that there is enough cash on hand to undertake the project.

- a. **Proposed Charges:** The applicant projects the charge per patient day for the first year of operation to be \$3,079, for year two \$3,081 and \$3,078 for year three. Grenada Lake Medical Center asserts that the hospital cost will change only by modest levels since there is no increase in beds and debt

service cost are projected to remain close to current levels. The applicant indicates that the design with the 15 bed units will allow for greater staffing flexibility as patient census changes, assisting in the control of labor cost.

- b. **The Projected Level of Utilization:** The applicant projects 1,012 inpatient days for year one, 1,072 inpatient days for year two, and 1,148 inpatient days for year three for the proposed project. Additionally, GLMC projects 1,786 outpatient days for year one, 1,893 outpatient days for year two, and 2,025 outpatient days for year three for the proposed project.
- c. **Project's Financial Feasibility Study:** The application contained a letter signed by the hospital's chief financial officer attesting to the financial feasibility of the project.

GR Criterion 5 - Need for the Project

- a. **Access by Population Served:** The applicant asserts that GLMC provides health care service to the residents of Grenada County. In addition, the populations of the surrounding counties seek services at GLMC. The hospital's ability to maintain quality facilities are imperative to its long term stability and success.
- b. **Relocation of Services:** This application is for the renovation and expansion of an existing facility in its current location.
- c. **Current and Projected Utilization of Like Facilities in the Area:** The average occupancy rate of facilities in General Hospital Service Area (GHSA) 1, wherein GLMC is located, is 61 percent for FY 2004. According to the applicant, GLMC's actual utilization (inpatient days) for all beds for 2005 was 19,226 or 33.77 percent. As previously mentioned, the applicant projects 1,012 inpatient days for year one, 1,072 inpatient days for year two, and 1,148 inpatient days for year three for the proposed project.
- d. **Probable Effect on Existing Facilities in the Area:** The proposed project should have no effect on existing facilities in the area because no additional beds or services will be added.
- e. **Community Reaction:** The application contains eight letters of support for the project from physicians and community organizations.

Grenada Lake Medical Center asserts that the new project will allow for better communications between nurses and patients, and better vertical transportation for patients in an elevator not used by general visitors. The tube system will provide for better communications between departments with employees having to leave their work areas for the pick up and delivery of various pharmacy and laboratory supplies. The provision of more storage on the nursing units will minimize hallway

clutter.

GR Criterion 6 - Access to the Facility or Service

- a. **Medically Underserved Population:** According to GLMC all residents of the health planning service area, hospital service area, patient service area, including Medicaid recipients, charity/medically indigent patients, racial and ethnic minorities, women, handicapped persons, and the elderly will have access to the services of the proposed project.
- b. **Performance in Meeting Federal Obligations:** The applicant submits that GLMC has no obligations under any federal regulations requiring uncompensated care, community service, or access by minority/handicapped persons.
- c. **Unmet Needs to be Served by Applicant:** Grenada Lake Medical Center states that it is a Medicare and Medicaid provider. The applicant reports that in 2005 and 2006, 2.0 percent of its gross patient charges resulted in uncompensated care. The applicant further projects that 2.0 percent of its services will be utilized by medically indigent patients.

GR Criterion 7 - Information Requirement

Grenada Lake Medical Center affirmed that it will record and maintain the information required by this criterion and make it available to the Mississippi Department of Health within 15 business days of request.

GR Criterion 8 - Relationship to Existing Health Care System

The applicant states that it currently cooperates fully with other healthcare providers in General Hospital Service Area 1. It does not anticipate that the approval of this application will have an adverse impact on other providers.

The Department received no letters of opposition concerning the proposed project.

Staff does not anticipate that this project will have an adverse impact on any of the existing hospitals in GHSA 1.

GR Criterion 9 - Availability of Resources

Grenada Lake Medical Center projects the need for 14.8 full-time equivalent personnel at an annual cost of \$602,720. The applicant states that the existing processes in place for the recruitment of hospital personnel will be adequate and appropriate to fill new positions. Currently, the hospital staff is sourced using newspaper advertisements, word of mouth, and third party recruiters. GLMC asserts that Holmes Community College has plans to add an additional class of

nursing which will help with the sourcing of RNs in the future.

GR Criterion 10 – Relationship to Ancillary or Support Services

The applicant states that the service expectations will be the same. There is no material change in physical proximity. It is expected that the pneumatic tube system will assist in communications as has the continued progress in electronic communications.

GR Criterion 14 - Construction Projects

- a. **Cost Estimate:** The application contains a cost estimate prepared by Jones - Zander, Ltd.
- b. **Schematic Drawing:** The application contains a schematic drawing of the proposed construction and renovation project.
- c. **Space Allocations:** The applicant submits that it will continue to meet state and local building codes, zoning ordinances, and other regulatory requirements.
- d. **New Construction Projects:** This project includes the renovation and construction for the replacement of 56 acute care beds at the existing hospital.
- e. **Cost per square foot:** The total project will cost \$340.61 per square foot for new construction and \$185.11 per square foot for renovated space (see Attachment 1). The new construction cost of the project is high when compared to similar projects listed in the *Means Building Construction Cost Data, 2007 Edition*. The applicant submits that the cost for new construction is projected higher due to the rapid inflation in the construction industry and the uncertainty of pricing due to the movement of the construction trades to the area of the state impacted by Katrina.

GR Criterion 16 - Quality of Care

Grenada Lake Medical Center is in compliance with the *Minimum Standards for the Operation of Mississippi Hospitals*, according to the Division of Health Facilities Licensure and Certification, MDH. The facility is accredited by the Joint Commission on Accreditation of Health Care Organizations.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

The total estimated capital expenditure is allocated as follows:

	Cost Item	Projected Cost	Percent
a.	Construction Cost -- New	\$13,329,800	58%
b.	Construction Cost -- Renovation	2,839,590	12%
c.	Capital Improvements	600,000	3%
d.	Total Fixed Equipment Cost	770,000	3%
e.	Total Non-Fixed Equipment Cost	580,000	3%
f.	Land Cost	0	0%
g.	Site Preparation Cost	800,000	3%
h.	Fees (Architectural, Consultant, etc.)	1,100,000	5%
i.	Contingency Reserve	2,305,610	10%
j.	Capitalized Interest	<u>675,000</u>	<u>3%</u>
k.	Total Proposed Capital Expenditure	<u>\$ 23,000,000</u>	<u>100%</u>

The above estimated capital expenditure is proposed for new construction of 52,190 square feet of space at a cost of \$340.61 per square foot and 21,843 square feet of renovated space at a cost of \$185.11 per square foot (See Attachment 1). The cost of new construction projects listed in *Means Building Construction Cost Data, 2007 Edition* range from \$164 to \$300 per square foot for hospitals. As previously mentioned, the applicant submits that the cost for new construction is projected higher due to the rapid inflation in the construction industry and the uncertainty of pricing due to the movement of the construction trades to the area of the state impacted by Katrina. The proposed project also involves the purchase of fixed and non-fixed equipment. The *Means Construction Cost Data, 2007 Edition*, does not compare costs of renovation projects in the state.

B. Method of Financing

Grenada Lake Medical Center proposes to finance \$20,000,000 of the proposed capital expenditure with a revenue bond, and pay the remaining balance of \$3,000,000 from cash reserves.

The application contains a copy of the Grenada County Board of Supervisors Resolution, which shows support of financing the hospital's proposed project.

C. Effect on Operating Cost

Grenada Lake Medical Center Projects the following expenses, revenues, and utilization for the first three years of operation:

Grenada Lake Medical Center Three-Year Operating Statement (Project Only)			
	Year 1	Year 2	Year 3
Revenue			
Patient Revenue:			
Inpatient	\$3,115,758	\$ 3,302,704	\$ 3,533,893
Outpatient	\$2,302,843	2,441,014	2,611,885
Total Gross Patient Revenue	<u>\$ 5,418,601</u>	<u>\$ 5,743,718</u>	<u>\$ 6,145,778</u>
Deductions:			
Charity Care	(\$ 108,372)	(\$ 114,874)	(\$ 122,916)
Deductions	(\$ 3,032,328)	(\$ 3,214,268)	(\$ 3,439,267)
Total Deductions	<u>(\$ 3,140,700)</u>	<u>(\$ 3,329,142)</u>	<u>(\$ 3,562,183)</u>
Net Patient Revenue	\$ 2,277,901	\$ 2,414,576	\$ 2,583,595
Other Operating Revenue	\$ 34,547	\$ 36,620	\$ 39,183
Total Operating Revenue	<u>\$ 2,312,448</u>	<u>\$ 2,451,196</u>	<u>\$ 2,622,778</u>
Expenses			
Operating Expenses:			
Salaries	\$602,720	\$620,810	\$639,425
Benefits	\$179,002	\$184,372	\$189,903
Supplies	\$196,460	\$202,354	\$208,424
Services	\$100,960	\$103,989	\$107,109
Depreciation	\$734,107	\$734,107	\$734,107
Interest	\$817,449	\$851,859	\$883,589
Other	\$188,371	\$194,022	\$199,843
Total Expenses	<u>\$ 2,819,069</u>	<u>\$ 2,891,503</u>	<u>\$ 2,962,400</u>
Net Income (Loss)	<u>\$ (506,620)</u>	<u>\$ (440,307)</u>	<u>\$ (339,622)</u>
Utilization			
Inpatient Days	1,012	1,072	1,148
Charge Per Inpatient Day	\$ 3,079	\$ 3,081	\$ 3,078
Cost Per Inpatient Day	\$2,786	\$2,697	\$2,580
Outpatient Days	1,786	1,893	2,025
Charge Per Outpatient Day	\$ 1,289	\$ 2,290	\$ 2,290

Cost Per Outpatient Day	\$1,579	\$1,528	\$1,463
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D. Cost to Medicaid/Medicare

Based on the applicant's projections, the cost to third party payors the first year of operation is as follows:

Patient Mix by Type Payer	Utilization Percentage	First Year Expenses
Medicaid	19	\$ 535,623
Medicare	53	1,494,106
Other	28	789,339
Total	100	\$ 2,819,068

Grenada Lake Medical Center asserts that bad debts are assumed to stay at a constant level over the life of the project at a similar rate (2.0 percent) to the latest year and charity care is projected to be 2.0 percent gross revenue per year.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for review and comment. However, no comments were received.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the criteria and standards for construction, renovation, expansion, capital improvements, replacement, and the addition of hospital beds as contained in the *FY 2007 State Health Plan*; the *Mississippi Certificate of Need Review Manual, Revised November 12, 2006*; and duly 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 by Grenada Lake Medical Center for renovation and construction for the replacement of 56 acute care beds.

Grenada Lake Medical Center

Attachment 1

Computation of Construction and Renovation Cost

<u>Cost Component</u>	<u>Total</u>	<u>New Construction</u>	<u>Renovation</u>
New Construction Cost	\$13,329,800	\$13,329,800	
Renovation Cost	\$2,839,590		\$2,839,590
Total Fixed Equipment Cost	\$770,000	\$770,000	
Total Non-Fixed Equipment Cost	\$580,000	\$0	
Capital Improvements	\$600,000		
Land Cost	\$0	\$0	
Site Preparation Cost	\$800,000	\$800,000	
<i>Fees (Architectural, Consultant, etc.)</i>	\$1,100,000	\$775,500	\$324,500
<i>Contingency Reserve</i>	\$2,305,610	\$1,625,455	\$680,155
<i>Capitalized Interest</i>	\$675,000	\$475,875	\$199,125
Total Proposed Capital Expenditure	\$23,000,000	\$17,776,630	\$4,043,370

Square Footage	74,033	52,190	21,843
<i>Allocation Percent</i>		70.50%	29.50%

Costs Less Land, Non-Fixed Eq. & Capital Improvement	\$21,820,000	\$17,776,630	\$4,043,370
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Cost Per Square Foot	\$294.73	\$340.61	\$185.11
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Cost per Bed (n=56)	\$363,667
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