

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

**CON REVIEW: HG-CRF-0808-027
KING'S DAUGHTERS HOSPITAL OF YAZOO COUNTY, INC.
d/b/a KING'S DAUGHTERS HOSPITAL
CONSTRUCTION/RELOCATION/REPLACEMENT PROJECT
CAPITAL EXPENDITURE: \$32,062,300
LOCATION: YAZOO CITY, YAZOO COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

King's Daughters Hospital of Yazoo County, Inc. d/b/a King's Daughters Hospital of Yazoo City ("KDH") is a 35-bed non-profit general acute care hospital, certified as a critical access hospital. The facility is governed by a nine-member Board of Trustees and licensed by the Mississippi State Department of Health.

The occupancy rates, average lengths of stay (ALOS), and the Medicaid utilization rates for King's Daughters Hospital are as follows for the three most recent fiscal years:

**King's Daughters Hospital
Utilization Data**

Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2005	41.67	3.89	11.63
2006	45.49	3.89	13.19
2007	54.90	4.86	11.98

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

B. Project Description

King's Daughters Hospital proposes to relocate and replace the current 86,000 square foot facility located in Yazoo County to a site three miles away, on Highway 16 approximately one mile east of the intersection of Highways 49 and 16. The new facility will also comprise approximately 86,000 square feet. All services currently provided by the facility will be relocated to and continued in the new facility. The project will not involve a change in bed capacity or services and no new major medical equipment will be acquired as a part of the project.

The final objective of the project is to relocate and replace the existing "obsolete" 1950's era hospital to a location with improved access to major roadways and to provide for more efficient and effective delivery of services to the citizens of Yazoo County and surrounding communities.

The applicant does not anticipate the necessity of any new personnel for the relocation and replacement project.

The MDH Division of Health Facilities Licensure and Certification has approved the site for the proposed project. The applicant expects to obligate funds for this project by October 2008 and expects completion by January 2010.

II. TYPE OF REVIEW REQUIRED

This project is reviewed in accordance with Section 41-7-191, subparagraphs (1) (b) and (e), Mississippi Code of 1972, Annotated, 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 November 5, 2008.

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

A. State Health Plan (SHP)

The *FY 2009 State Health Plan* contains criteria and standards which an applicant is required to meet prior to undertaking the replacement and/or relocation of a health care facility. This application is in substantial compliance with applicable criteria and standards.

SHP Criterion 1 – Need

For projects which do not involve the addition of any acute care beds, the applicant shall document the need for the proposed project. Such documentation may consist of, but is not limited to, citing of licensure or regulatory code deficiencies, institutional long-term plans (duly adopted by the governing board), recommendations made by consultant firms, and deficiencies cited by accreditation agencies (JCAHO, CAP, etc.). In addition, for projects which involve construction, renovation, or expansion of emergency department facilities, the applicant shall include a statement indicating whether the hospital will participate in the statewide trauma system and describe the level of participation, if any.

King's Daughters states that it engaged the services of Stroudwater Associates of Portland, Maine, and McCarty Company of Tupelo, Mississippi, to consult and facilitate its strategic planning and master facility planning and evaluation. That process provided a joint report dated March 7, 2007, which recommended relocation and replacement of KDH out of its current landlocked residential location to a more visible and readily accessible site on a major roadway.

In addition, the applicant engaged the services of Wipfli, LLP of Wausau, Wisconsin, CPA's and financial consultants, to evaluate and forecast the outlook of KDH market demand and the financial feasibility of the hospital relocation/replacement plan. The application included a report dated May 29, 2008, which recommended hospital relocation/replacement as the only feasible course of action.

According to the applicant, replacement of the facility is proposed in part due to recognized fire, building, and life safety code compliance issues. The applicant states that it has not been cited for any deficiencies relative to fire, building, or life safety codes but, since the existing facility was built in the 1950's, it could not meet current standards if it were to be newly evaluated based on currently applicable standards. In addition, a major renovation of the existing facility would trigger the application of many standards which would prove to be very costly compared to the cost of replacement of the facility.

In addition, the applicant states that the architectural design and location of the existing facility places restraints on any expansion of the existing facility, which is a significant factor in the decision to replace and relocate the hospital. The architectural design and location of the proposed project are open and expansive since the proposed location is currently an open field outside of Yazoo City.

King's Daughters Hospital does not currently participate in the statewide trauma system, but the applicant anticipates beginning participation as a Level IV Trauma Center within the next two years and anticipates that the proposed replacement hospital facility will continue to participate as a Level IV Trauma Center.

SHP Criterion 2 – Bed Service Transfer/Reallocation/Relocation

According to the applicant, this project does not involve the relocation of a specific category or subcategory of beds or service from one facility to another as part of the replacement project, but it is a total relocation of all the facilities and services of King's Daughters Hospital to a new location.

The applicant anticipates that the proposed project will meet all regulatory/licensure requirements for the type of bed and/or service being relocated.

SHP Criterion 3 – Uncompensated Care

King's Daughters Hospital affirmed that it has provided more than a reasonable amount of medically indigent/charity care and will continue to provide a reasonable amount of indigent/charity care, as described in the *Plan*.

SHP Criterion 4 – Reasonable Cost

The cost of this project is \$297.67 per square foot for new construction. The cost of this project exceeds the median cost of \$212 for hospital construction projects listed in the *Means Construction Cost Data, 2008 edition*.

The applicant further indicates that equipment costs for the project do not exceed the median costs for similar equipment by 15%.

SHP Criterion 5 – Floor Area Specifics

The applicant states that the floor area of 86,000 is the same as the current facility and is comparable to state and national norms for new critical access hospitals with 25 to 35 beds.

According to the applicant, the construction cost estimates include monies necessary to extend utility infrastructure to the proposed hospital site in the event that the local utilities fail to bear those costs themselves.

SHP Criterion 6 – Renovation versus Replacement

This criterion is not applicable since no renovation is required. Due to the age of the facility and the fact that it is landlocked, renovation was not a viable option.

SHP Criterion 7 – Specific Service Need

No new services are proposed by this project.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, 2008 Revision*, 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 application is in substantial compliance with *the FY 2009 State Health Plan*.

GR Criterion 2 - Long Range Plan

The applicant submits that the proposed is compatible and consistent with its strategic/operating plan and the goals thereof to provide quality, efficient healthcare to all residents of Yazoo County and its surrounding communities.

GR Criterion 3 – Availability of Alternatives

King's Daughters states that they considered and rejected two alternatives to the project – maintain the status quo and renovation.

Maintain the Status Quo. According to the applicant, this alternative was rejected because the current building has outlived its usefulness as a hospital facility. In addition, the existing facility is located in a residential neighborhood and is not accessible to the area's main corridors. Furthermore, the existing facility is inefficiently laid out for the delivery of modern healthcare and its shift from an inpatient focus to an outpatient focus. Moreover, the applicant states that departmental adjacencies which have evolved over time are not positioned for efficient flow of patients and services.

Renovation. The applicant submits that renovation would be extraordinary costly and, while current cost estimates for new construction and for complete renovation are similar on a per

square foot basis, actual renovation costs tend to run higher than originally estimated due to discovery of issues during the course of a renovation project. Moreover, the renovation cost estimate does not consider the impact on operations during the construction. In addition, renovation would not address the current site location and expansion restriction issues of KDH. Also involved with renovation projects are ADA compliance issues to be met and immediate requirements of upgrading all manner of code issues to current standards, in addition to Life Safety Code requirements that must be met. The applicant estimates that it would cost approximately \$10,000,000 to renovate only 40,000 sq. ft. of affected space.

The applicant believes that selecting relocation and replacement of the hospital instead of continuing the status quo or renovating the hospital most effectively benefits the residents of Yazoo County and its surrounding communities, the health care system as a whole, and KDH.

GR Criterion 4 - Economic Viability

Financial projections indicate net losses of \$368,100 for the first year and \$433,600 for the second year, with income of \$35,600 for the third year after completion of the project.

The charges proposed are comparable with charges proposed by other acute care facilities. The applicant submits that there will be no changes in the charges per patient day resulting from this project.

The applicant's projected level of utilization is high compared with other acute care facilities in the state. The applicant projects approximately 83 percent occupancy rate while the average occupancy rate for acute care facilities in the state is 47.12 percent. However, as shown on page one of this Staff Analysis, the occupancy rate at KDH has been increasing over the past three years.

The application contained a Financial Forecast Report prepared by Wipfli, LLP and a letter signed by the hospital's chief financial officer and the chief executive officer attesting to the financial feasibility of the project.

GR Criterion 5 - Need for the Project

- a. **Access by Population Served:** The applicant submits that Yazoo County has only one hospital, KDH, serving its population and if not replaced the facility will eventually be cited as having licensure, life safety, fire code and/or other deficiencies which will mandate its renovation, replacement or closure.
- b. **Relocation of Services:** This application proposes the relocation of KDH within its existing service area. The applicant submits that the needs of the community will be better served by the more modern facility. According to the applicant, all the residents of Yazoo County and its surrounding community will have better, more expeditious and convenient hospital access at the new site located approximately three miles from the existing hospital on Highway 16 near its intersection with Highway 49.

- c. **Current and Projected Utilization of Like Facilities in the Area:** The average occupancy rate of acute care facilities in the state is 47.12 percent. The applicant's occupancy rate for FY 2007 was 54.90. King's Daughters expects the occupancy rate to increase to 83 percent after completion of the project.
- d. **Probable Effect on Existing Facilities in the Area:** The project is not expected to have an adverse effect on existing health care facilities in the area.
- e. **Community Reaction:** The application contains 29 letters of support for the project from physicians and community organizations and leaders.

GR Criterion 6 - Access to the Facility or Service

- a. **Medically Underserved Population:** King's Daughters Hospital documented that all residents of the patient service area, including Medicaid recipients, charity/medically indigent patients, racial and ethnic minorities, women, handicapped persons, and the elderly have access to the services provided by the hospital and will continue to have access by the new facility.
- b. **Performance in Meeting Federal Obligations:** The applicant submits that KDH has no obligations under any federal regulations requiring provisions of uncompensated care, community service, or access by minority/handicapped persons.
- c. **Unmet Needs to be Served by Applicant:** The applicant submits the following amounts and percentages of historical/projected gross patient revenue provided or to be provided to the medically indigent patients for the past two years and for the first two years of this project:

	Gross Patient Revenue (percent of)	Gross Patient Revenue (dollar amount)
Historical Year 2006	1.35%	\$ 289,173
Historical Year 2007	1.24%	418,163
Projected Year 1	2.00%	773,000
Projected Year 2	2.00%	\$904,000

GR Criterion 7 - Information Requirement

King's Daughters Hospital 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

King's Daughters Hospital states that there are no existing comparable services within KDH's service area. According to KDH, the target population addressed by this project accesses the services proposed to be offered by KDH by attending KDH's existing facility for those services or by driving 30 to 45 minutes or more to Jackson, Vicksburg, Rolling Fork, Belzoni, or Lexington.

The applicant submits that the proposed project will continue existing services in Yazoo County and complement them by making them more readily accessible in a more modern accessible and inviting facility.

GR Criterion 9 - Availability of Resources

The applicant submits that the project does not require additional personnel. The facility has sufficient physicians on staff at present to ensure proper implementation of the services currently offered and the continuation of those services in the new facility.

GR Criterion 10 – Relationship to Ancillary or Support Services

The applicant states that all necessary support and ancillary services for the proposed project are available inasmuch as the project is simply a relocation and replacement of the existing hospital, which already has all necessary support and ancillary services available to it.

The applicant also states that there is no anticipated change in costs or charges as a result of the proposed project. However, the three-year projected income statement indicates that the charge per inpatient day will increase from \$1,594 to \$1,897 the first year, \$1,986 the second year, and \$2,052 the third year after completion of the project.

GR Criterion 14 - Construction Projects

- a. **Cost Estimate:** The application contains a cost estimate prepared by Sam E. DiCarlo, Architect.
- b. **Cost per square foot:** The project will cost \$297.67 per square foot. The cost of the project is within the high range of construction projects listed in the *Means Construction Cost Data, 2008*.

GR Criterion 16 - Quality of Care

King's Daughters Hospital of Yazoo City is in compliance with the *Minimum Standards for the Operation of Mississippi Hospitals*, according to the Division of Health Facilities Licensure and Certification, MSDH.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

The capital expenditure shown below is proposed for 86,000 square feet of new construction at a cost of \$297.67 per square foot. The project's cost is within the upper 25% range of construction costs listed in the *Means Construction Cost Data, 2008 edition*. The *Means Construction Cost Data* lists the costs for hospital construction from \$172 to \$310 per square foot.

	Item	Cost	Percent of Total
a.	Construction Cost -- New	\$18,266,820	56.97
b.	Construction Cost -- Renovation	0	0
c.	Capital Improvements	0	0
d.	Total Fixed Equipment Cost	0	0
e.	Total Non-Fixed Equipment Cost	5,387,687	16.80
f.	Land Cost	650,000	2.03
g.	Site Preparation Cost	1,800,000	5.61
h.	Fees (Architectural, Consultant, etc.)	1,640,000	5.12
i.	Contingency Reserve	2,633,493	8.21
j.	Capitalized Interest	1,259,300	3.93
	Other	425,000	1.33
l.	Total Proposed Capital Expenditure	\$32,062,300	100.00

B. Method of Financing

The applicant submits that the project will be funded with an USDA Loan. The application contained an amortization schedule with indicates a 30-year loan of \$32,064,300 at 7% interest.

C. Effect on Operating Cost

King's Daughters Hospital's three-year projected operating statement is presented at Attachment 1.

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	Utilization Percentage	First Year Expenses
Medicaid	14	\$ 6,900,292
Medicare	61	30,065,558
Other	25	12,321,950
Total	100	\$49,287,800

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 submitted by the Division.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the criteria and standards for the replacement and/or relocation of health care facilities as contained in the *FY 2009 State Health Plan*; the *Mississippi Certificate of Need Review Manual, Revised 2008*; and duly adopted rules, procedures and plans of the Mississippi State Department of Health.

The Division of Health Planning and Resource Development recommends approval of the application submitted by King's Daughters Hospital of Yazoo County, Inc. d/b/a King's Daughters Hospital for the relocation/replacement of its facility.

Attachment 1

King's Daughters Hospital-Yazoo County, Inc. Three-Year Operating Statement (Project Only)			
	Year 1	Year 2	Year 3
Revenue			
Patient Revenue:			
Inpatient	\$ 19,725,500	\$ 21,026,200	\$ 21,723,800
Outpatient	29,562,300	33,409,500	37,715,100
Gross Patient Revenue	\$49,287,800	\$54,435,700	\$ 59,438,900
Charity Care	993,754	1,115,160	1,164,195
Deductions from Revenue	25,157,659	28,622,452	32,098,527
Net Patient Revenue	\$23,136,387	\$24,698,088	\$26,176,178
Other Operating Revenue	\$ 434,900	\$ 448,000	\$ 461,500
Total Operating Revenue	\$23,571,287	\$25,146,088	\$26,637,678
Expenses			
Operating Expenses:			
Salaries	\$ 6,199,900	\$6,376,500	\$6,599,500
Benefits	1,440,900	1,513,800	1,595,100
Supplies	3,131,800	3,359,500	3,579,700
Services	4,902,700	5,074,700	5,257,400
Lease	338,900	338,900	338,900
Depreciation	1,793,900	2,146,800	2,106,500
Interest	1,444,000	1,902,600	1,872,700
Other	4,687,287	4,866,888	5,252,278
Total Expenses	\$ 23,939,387	\$ 25,579,688	\$ 26,602,078
Net Income (Loss)	\$ (368,100)	\$ (433,600)	\$ 35,600
Assumptions			
Inpatient days	10,401	10,586	10,586
Outpatient visits	12,000	13,008	13,984
Procedures	75,000	81,300	87,398
Charge/outpatient day	\$2,464	\$ 2,568	\$ 2,697
Charge/inpatient day	\$ 1,897	\$ 1,986	\$ 2,052
Charge per procedure	\$ 657	\$ 670	\$ 680
Cost per inpatient day	\$ 2,302	\$ 2,416	\$ 2,513
Cost per outpatient day	\$ 1,995	\$ 1,966	\$ 1,902
Cost per procedure	\$ 319	\$ 315	\$ 304

Attachment 2
Computation of Construction Cost

<u>Cost Component</u>	<u>Total</u>	<u>New Construction</u>
New Construction Cost	\$18,266,820	\$18,266,820
Renovation Cost		
Total Fixed Equipment Cost		
Total Non-Fixed Equipment Cost	\$5,387,687	\$0
Land Cost	\$650,000	\$0
Site Preparation Cost	\$1,800,000	\$1,800,000
Fees (Architectural, Consultant, etc.)	\$1,640,000	\$1,640,000
Contingency Reserve	\$2,633,493	\$2,633,493
Capitalized Interest	\$1,259,300	\$1,259,300
Other	\$425,000	\$0
Total Proposed Capital Expenditure	\$32,062,300	\$25,599,613

Square Footage	86,000	86,000
Allocation Percent		100.00%

Costs Less Land, Non-Fixed Eqt., Other	\$25,599,613	\$25,599,613
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Cost Per Square Foot	\$297.67
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