

**MISSISSIPPI STATE DEPARTMENT OF HEALTH  
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT  
JULY 2011**

**CON REVIEW HG-CO-0511-010  
MONTFORT JONES MEMORIAL HOSPITAL  
COST OVERRUN TO CON NO. R-0812  
(EXPANSION/RENOVATION OF HOSPITAL)  
APPROVED CAPITAL EXPENDITURE: \$15,500,000  
ADDITIONAL CAPITAL EXPENDITURE: \$3,013,721  
REVISED CAPITAL EXPENDITURE: \$18,513,721  
LOCATION: KOSCIUSKO, ATTALA COUNTY, MISSISSIPPI**

**STAFF ANALYSIS**

**I. PROJECT SUMMARY**

**A. Applicant Information**

Montfort Jones Memorial Hospital (MJMH) is a public, county owned hospital and is governed by a board of trustees appointed by the Attala County Board of Supervisors.

The facility is licensed for 71 acute care beds which include 64 general medical/surgical beds and 7 cardiac intensive care beds.

The occupancy rates, average lengths of stay (ALOS), and the Medicaid utilization rates for Montfort Jones Memorial Hospital are as follows for the years 2008 through 2010:

**Montfort Jones Memorial Hospital  
Utilization Data**

<b>Fiscal Year</b>	<b>Occupancy Rate (%)</b>	<b>ALOS (Days)</b>	<b>Medicaid Utilization Rate (%)</b>
2008	35.22	4.65	96%
2009	32.29	5.27	N/A
2010	26.73	4.30	65%

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

**B. Project Background**

Montfort Jones Memorial Hospital obtained Certificate of Need No. R-0812 with an effective date of June 24, 2010 and an expiration date of June 24, 2011. The original project involved the expansion and renovation of the hospital and

entailed 64,720 square ft. of new construction and 23,800 square ft. of renovation.

**C. Project Description**

Montfort Jones Memorial Hospital now requests Certificate of Need authority for a cost overrun to its CON No. R-0812. The applicant explains that the construction/renovation cost have increased primarily from an overall estimated cost of \$13,200,000 to \$13,966,170 because of (i) the increase in the costs of construction since the filing of the original CON application, (ii) the additional cost of constructing a parking area for the newly constructed part of the hospital, (iii) the additional cost of replacing the roof of the existing building, (iv) the additional cost of painting the existing building, and (v) the additional cost of minor refurbishment to the existing structure that will be accomplished by the hospital staff. The allocation has shifted based on the specifics set forth in the construction contract.

The cost of site work increased from \$400,000 to \$1,657,876 because upon inspection it was determined that much of the property where the new addition to the hospital would be located was formerly used as non-toxic, non-chemical, non-refuse landfill that had to be excavated and refilled with solid soil.

Although the hospital has begun construction under the Construction Contract and does not anticipate any additional increase, a contingency reserve in the amount of \$450,000, approximately 3% of the construction/renovation cost, has, in an abundance of caution, been added to the cost estimated to complete the project.

**II. TYPE OF REVIEW REQUIRED**

The original project was reviewed under the applicable statutory requirements of Section 41-7-191, subparagraph (1) (j), Mississippi Code of 1972, as amended.

The State Health Officer reviews all projects for cost overrun in accordance with duly adopted rules, procedures, plans, criteria and standard of the Mississippi State Department of Health. Cost overrun projects qualify for expedited review pursuant to section 41-7-205(c), Mississippi Code of 1972, as amended.

In accordance with Section 41-7-197(2) of the Mississippi Code or 1972 Annotated, as amended, any affected person may request a public hearing on this project within 20 days of publication of this staff analysis. The opportunity to request a hearing expires on August 8, 2011.

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

**A. State Health Plan**

The original project was in substantial compliance with the *FY 2010 State Health Plan*, in effect at the time the original application was submitted. This cost overrun project continues to be in substantial compliance with the *State Health Plan*.

**B. General Review Criteria**

The original project was in substantial compliance with the *Certificate of Need Review Manual, revised December 2009*, in effect at the time of submission. This application continues to be in compliance with applicable general review criteria and standards contained in the *Manual*.

**IV. FINANCIAL FEASIBILITY**

**A. Capital Expenditure Summary**

	<u>Approved Capital Expenditure</u>	<u>Revised Capital Expenditure</u>	<u>Increase (Decrease)</u>
New Construction	12,000,000	10,609,708	(1,390,292)
Renovation	1,200,000	3,356,462	2,156,462
Capital Improvements	0	0	0
Land	0	0	0
Site Work	400,000	1,657,876	1,257,876
Fixed Equipment	500,000	500,000	0
Non-Fixed Equipment	250,000	250,000	0
Architectural/Engineering Fees	900,000	971,661	71,661
Contingency Reserve	0	450,000	450,000
Capitalized Interest	0	308,014	308,014
Fess, Accessories, Bond insurance fees	250,000	410,000	160,000
<b>Total</b>	<b>\$15,500,000</b>	<b>\$18,513,721</b>	<b>\$3,013,721</b>

As previously mentioned, the capital expenditure approved in the original CON is \$15,500,000 and the additional costs for this cost overrun proposal are \$3,013,721 resulting in a revised capital expenditure of approximately

\$18,513,721 for the project. The construction area square ft. includes 64,720 square ft. The renovation square ft. includes 23,800 square ft. The total square footage for the project is 88,520 square ft. The construction cost per square ft. has increased from \$172.28 per square ft. to \$201.69 per square ft. Architectural fees, which are calculated as a percentage of the construction/renovation costs, increased as such construction/renovation costs increased. This price is comparable to the median price listed in the RSMeans Building Construction Cost Data 2011, 69<sup>th</sup> annual edition.

Due to the increased capital expenditure, the applicant determined that it will be necessary to finance a portion of the capital expenditure with revenue bonds. Therefore, \$308,014 was added to the cost for capitalized interest and \$160,000 was added for bond issuance fees. This cost overrun project does not change the scope of the original project.

**B. Method of Financing**

Of the estimated capital expenditure in the amount of \$18,513,721, most of the project or about two-thirds is being financed with the hospital's accumulated cash reserves. Only \$6,500,000 is being financed with hospital revenue bonds issued by Attala County and purchased by the Mississippi Development Bank and/or loan with the Mississippi Development Bank. The debt service on the bonds/loans will be payable over 25 years with an interest rate at 5.27%

**C. Effect on Operating Cost**

The applicant projects the revised gross patient revenue of \$34,002,323, expenses of \$16,983,247, and net income of \$1,749,516 during the first year of operation for this amendment project.

The complete First Year of Operation Plan is presented in "attachment 1" of the staff analysis.

**D. Cost to Medicare/Medicaid**

According to the applicant, the additional capital expenditure is not expected to have a material effect on Medicare, Medicaid or other patients or payors as a result of this cost overrun project.

**V. RECOMMENDATION OF OTHER AFFECTED AGENCIES**

A copy of the application was provided to the Division of Medicaid for review and comment. The Division of Medicaid estimates a total increased annual cost of \$10,944 in inpatient hospital services. The Division of Medicaid opposes this project.

## VI. CONCLUSIONS AND RECOMMENDATION

This project continues to be in substantial compliance with the overall objectives of the FY 2010 *State Health Plan; Certificate of Need Review Manual; Revised 2009*; and all adopted rules, procedures, and plans of the Mississippi State Department of Health in effect at the time of approval.

The Division of Health Planning and Resource Development recommends approval of the application submitted by Montfort Jones Memorial Hospital for a cost overrun to CON #R-0812 (Expansion/Renovation of Hospital).

**Attachment 1**  
**Montfort Jones Memorial Hospital**

**Revised Projected Operating Statement for First Year of Operation**

<b>Revenue</b>	
<b>Inpatient Care Revenue</b>	\$17,842,396
<b>Outpatient Care Revenue</b>	16,159,927
<b>Gross Patient Care Revenue</b>	34,002,323
<b>Charity Care</b>	238,016
<b>Deductions from Revenue</b>	15,155,694
<b>Net Patient Care Revenue</b>	18,608,612
<b>Other Operating Revenue</b>	124,150
<b>Total Operating Revenue</b>	<b>18,732,763</b>
<b>Operating Expenses:</b>	
<b>Salaries</b>	6,331,242
<b>Benefits</b>	2,950,081
<b>Supplies</b>	2,202,807
<b>Services</b>	-
<b>Lease</b>	-
<b>Depreciation</b>	1,244,196
<b>Interest</b>	308,014
<b>Other</b>	3,946,907
<b>Total Operating Expense</b>	<b>16,983,247</b>
<b>Net Operating Income (Loss)</b>	<b>1,749,516</b>
<b>General Assumptions:</b>	
<b>Inpatient days</b>	10,119
<b>Outpatient visits</b>	19,514
<b>Procedures</b>	0
<b>Charge per outpatient day</b>	828
<b>Charge per inpatient day</b>	1,763
<b>Charge per procedure</b>	-
<b>Cost per inpatient day</b>	1,678
<b>Cost per outpatient day</b>	870
<b>Cost per procedure</b>	-