

**DIVISION OF HEALTH PLANNING AND
RESOURCE DEVELOPMENT
AUGUST 2011**

**CON REVIEW: HG-CB-0611-011
MAGNOLIA REGIONAL HEALTH CENTER
ADDITION OF 36 ACUTE CARE BEDS
CAPITAL EXPENDITURE \$499,500
LOCATION: CORINTH, ALCORN COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Magnolia Regional Health Center is a short term, general acute care, public hospital owned by the City of Corinth and Alcorn County. The facility is governed by a seven-member Board of Trustees. The facility is certified to participate in the Medicare and Medicaid programs and is accredited by the Joint commission on Accreditation of Healthcare Organization (JCAHO).

Magnolia Regional Health Center is licensed for 164 beds, which includes 19 adult psychiatric beds. The occupancy rates, average lengths of stay (ALOS), and the Medicaid utilization rates for the three most recent years are as follows for the years 2008 through 2010:

**Magnolia Regional Health Center
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2008	58.09	4.32	16.90
2009	63.30	4.43	16.82
2010	63.34	4.49	18.70

Source: Division of Health Facilities Licensure and Certification, MSDH

B. Project Description

Magnolia Regional Health Center (Magnolia) is requesting Certificate of Need (CON) authority for the addition of 36 acute care beds to the hospital. The project will increase its licensed acute care beds from 145 to 181. The applicant states that Magnolia has the ability to add these beds at a nominal cost by utilizing decommissioned patient rooms on the fourth floor of the hospital that are currently used as storage or are sitting vacant. These rooms can be brought back online by refurbishing and re-equipping them. The size and layout of these rooms comply with all applicable licensure and certification standards. The proposed project does not involve new construction or renovation. According to the applicant, the addition of 36 licensed acute care beds will ensure that Magnolia has the bed capacity to meet the current and future needs of its patient population and service area.

Magnolia asserts that a request for site approval has been submitted to the MSDH Division of Health Facilities Licensure and Certification. The application contains a copy of the letter requesting site approval for the proposed project.

According to the applicant, the anticipated date for obligation of the capital expenditure will be October 1, 2013 and the anticipated date for completion of the proposed project will be October 1, 2014.

II. TYPE OF REVIEW REQUIRED

This project is reviewed in accordance with Section 41-7-191, subparagraph (1)(c), (f), and (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 September 6, 2011.

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

A. State Health Plan (SHP)

The *FY2011 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

Magnolia Regional Health Center proposes to add 36 acute care beds to its facility.

Magnolia Regional Health Center is located in Corinth, Mississippi, which has a 2010 population projection of 34,983, according to the *Plan*. According to the applicant, Magnolia's current inpatient occupancy rate is reflective of the hospital's significant growth in acute care patient days in recent years. This growth can be attributed to the following factors: the hospital recruited new physicians and specialists to the community, which has resulted in an increase in various acute care services, and Magnolia's new and expanded facilities and services, which have generated increased demand for inpatient care. Magnolia asserts that it has a medical education program in 2006, which graduated the first class of medical students into the hospital's newly formed residency program in 2008. This program has enhanced Magnolia's ability to retain physicians in the community, resulting in a greater number of physicians utilizing the inpatient services of the hospital. In 2009, Magnolia added spine surgery to its existing orthopedic program, and other projects that have contributed to inpatient growth include an increase in the hospital's trauma level, the commencement of a STEMI care process, the completion of chest pain center certification, and the addition of hyperbaric wound care.

Magnolia Regional Health Center is seeking the proposed 36 additional beds in order to respond to current and projected increases in demands for inpatient services; to prepare for the aging population spike; to increase inpatient resources in response to the Affordable Care Act of 2010; and to ease the strain caused by spikes in occupied beds during high census season, as well as during regular weekly and daily spikes.

In addition to the documentation of need as required above, the *FY 2011 State Health Plan* requires the applicant to document that the facility in question has maintained an occupancy rate of at least 60 percent for the most recent two (2) years or has maintained an occupancy rate of at least 70 percent for the most recent two years when factoring in observation patient days according to the formula stated in the *Plan*. As shown on Page 1 of this staff analysis, Magnolia Regional Health Center maintained an occupancy rate of 63.30 percent for FY 2009 and 63.34 percent for FY 2010.

The applicant is in compliance with this criterion for the addition of acute care beds.

SHP Criterion 2 – Bed Service Transfer/Reallocation/Relocation

This project does not involve the transfer/reallocation or relocation of beds.

SHP Criterion 3 – Uncompensated Care

The applicant asserts that Magnolia provides and will continue to provide a reasonable amount of indigent/charity care, as described in the *Plan*. Magnolia projects that 3 percent of its gross revenue will be for indigent and charity care for the proposed project.

SHP Criterion 4 –Cost of Project

This project does not involve new construction or renovation.

Equipment Cost: The applicant asserts that the equipment costs for the proposed project consist of non-fixed equipment in the amount of \$499,500. The applicant believes this cost is reasonable and consistent with industry standards, and comparable with similar projects previously approved by the Department.

SHP Criterion 5 – Floor Area and Space Requirements

This project does not involve new construction or renovation. The applicant asserts that the additional beds will be implemented through the use of decommissioned patient rooms on the fourth floor of the hospital. This area consists of decommissioned patient rooms that are currently used as storage or sitting vacant. The size and layout of these rooms comply with all applicable licensure and certification standards.

SHP Criterion 6 – Renovation versus Replacement Facility

Magnolia states that no renovation or replacement will take place as a result of the proposed project.

SHP Criterion 7 – Need for Service

The applicant does not propose new services as a result of the proposed project.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, May 1, 2010, 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 *State Health Plan* also requires that an applicant document that the facility has maintained an occupancy rate of at least 60 percent for the most recent two years. Magnolia's occupancy rates have been more than the required level for the addition of acute care beds.

The proposed project is consistent with the *FY 2011 State Health Plan*.

Therefore, the application submitted by Magnolia Regional Health Center for the addition of 36 acute care beds is consistent with the *State Health Plan*.

GR Criterion 2 - Long Range Plan

The applicant states that Magnolia's long range goal to provide high quality facilities and services to patients seeking health care services at Magnolia is consistent with the proposed project. The addition of 36 licensed acute care beds, as proposed, will ensure that the hospital has the bed capacity to meet the current and future needs of its patient population and service area.

GR Criterion 3 – Availability of Alternatives

The applicant states that this project, as proposed, is the most efficient and cost effective method to meet the needs of patients seeking acute care services at Magnolia. The applicant asserts that it is able to add these beds at a nominal cost by utilizing decommissioned patient rooms on the existing fourth floor of the hospital. Magnolia believes that this is a much more desirable alternative than implementing the beds through new construction or extensive renovation.

The applicant asserts that it has chosen to modernize existing patient rooms currently being utilized for other functions as the best approach for the addition of acute care space at the hospital. The addition of 36 acute care beds will effectively expand the hospital's ability to accommodate inpatient bed demand. The expansion of the hospital in this manner is the option determined to be the most cost-effective approach to meeting the needs of the residents of the service area.

GR Criterion 4 - Economic Viability

Magnolia Regional Health Center submits that its proposed financial projections for the entire hospital indicate net incomes of \$5,444,015 for the first year, \$4,594,843 for the second year, and \$3,509,203 for the third year after completion of the project for the entire hospital.

According to the applicant, depreciation will be the only added expense for the next three years as a result of the proposed project.

GR Criterion 5 - Need for the Project

- a. **Access by Population Served:** The applicant asserts that the services offered at Magnolia are available to all residents of the service area, including low income persons, racial and ethnic minorities, women, handicapped persons, the elderly and other underserved groups. The applicant believes that the proposed project will enhance the service delivery at the hospital by providing adequate space and facilities to meet the current and projected demands for acute care beds. These services are and will continue to be available to all residents of the service area.
- b. **Relocation of Services:** This application does not propose relocation of services.
- c. **Current and Projected Utilization of Like Facilities in the Area:** The average occupancy rate of facilities in General Hospital Service Area (GHSA) 2 for FY 2009 is 46.37 percent and the number of licensed beds is 1,059.
- d. **Probable Effect on Existing Facilities in the Area:** The project proposes to add 36 acute care beds to the hospital. Given the current occupancy rate stated above for GHSA 2, wherein the applicant is located, the addition of 36 beds in the area will not have an adverse impact on the existing facilities.
- e. **Community Reaction:** The application contains three letters of support for the project.

No letters of opposition were submitted to the Department concerning the proposed project.

Magnolia asserts that this project is designed to address projected external forces, which will have a dramatic impact on the delivery of acute care services. Both the Affordable Care Act of 2010 and the continued aging of the population are expected to result in substantial increases in the demand for health resources, including inpatient services. By implementing additional acute care bed capacity at this time, Magnolia Health Center will be well-positioned to respond to these needs in both the short-and long-term.

GR Criterion 6 - Access to the Facility or Service

- a. **Medically Underserved Population:** Magnolia submits that all residents of the patient service area currently have and will continue to have access to the services of the hospital.

The applicant provided the following dollar amount and percentage of care to medically indigent and charity care patients for the last two years.

Fiscal Year	Dollar Amount	Percent of Gross Revenue
2010	\$11,034,000	2.3%
2009	\$11,896,000	2.9%

Magnolia Regional Health Center projects 3 percent for indigent and charity care patients for the proposed project.

- b. Performance in Meeting Federal Obligations:** The applicant submits that Magnolia has no obligations under any federal regulations requiring uncompensated care, community service, or access by minority/handicapped persons.
- a. Unmet Needs to be Served by Applicant:** Magnolia Regional Health Center states that all residents of the service area currently have and will continue to have access to the services of the hospital.

GR Criterion 7 - Information Requirement

Magnolia Regional Health 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 believes that this project once completed will enhance the health care system by providing health care resources needed by the community. The proposal will complement the existing health care facilities and services offered within the service area without adverse impact. The applicant asserts that if this project is not implemented, the result will be an adverse impact to the patients seeking acute care services of the hospital.

GR Criterion 9 - Availability of Resources

Magnolia states there are no clinically related contractual services directly associated with this project, and that the hospital will recruit needed personnel, if any, from its present recruiting efforts and affiliation arrangements. The applicant asserts that Magnolia has demonstrated a satisfactory staffing history, as evidenced by its accreditation by the Joint Commission.

GR Criterion 10 – Relationship to Ancillary or Support Services

The applicant states that any additional support or ancillary services needed as a result of the proposed project are available at Magnolia Regional Health Center through existing staff and resources.

GR Criterion 14 - Construction Projects

As previously mentioned, this project does not involve new construction or renovation.

GR Criterion 16 - Quality of Care

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

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

The proposed cost of the non-fixed equipment is \$499,500 for the proposed project.

B. Method of Financing

The applicant proposes to finance the proposed capital expenditure from cash reserves. The application contains Magnolia's financial statements for the past three years, which document the applicant's ability to undertake the proposed project.

C. Effect on Operating Cost

Magnolia Regional Health Center's three-year projected operating statement (entire facility with project) 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 by Type Payer	Utilization Percentage	First Year Expenses
Medicaid	13	\$ 68,245,411
Medicare	56	293,980,232
Other	31	162,739,057
Total	100	\$524,964,700

Magnolia Regional Health Center projects 3 percent for indigent and charity care patients for the proposed project.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid estimates that the increased annual cost to Medicaid for the proposed project will be \$4,002 in inpatient hospital services, and that outpatient services will be paid as outlined in the Medicaid State Plan. The Division of Medicaid opposes this project.

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 2011 State Health Plan*; the *Mississippi Certificate of Need Review Manual, Revised 2010*; 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 this application submitted by Magnolia Regional Health Center for addition of 36 Acute Care Beds.

Attachment 1

Magnolia Regional Health Center Three-Year Operating Statement for Entire Facility			
	Year 1	Year 2	Year 3
Revenue			
Patient Revenue:			
Inpatient	\$ 236,334,300	\$257,128,200	\$286,918,700
Outpatient	<u>288,630,400</u>	<u>312,952,900</u>	<u>342,892,900</u>
Total Gross Patient Revenue	<u>\$ 524,964,700</u>	<u>\$ 570,081,100</u>	<u>\$629,811,600</u>
Charity Care	\$ 11,024,220	\$ 11,971,660	\$13,226,000
Deductions from Revenue	<u>(371,354,110)</u>	<u>(416,115,040)</u>	<u>(472,840,740)</u>
Net Patient Care Revenue	<u>\$142,586,370</u>	<u>\$141,994,400</u>	<u>\$143,744,860</u>
Other Operating Revenue	\$ 23,773,500	\$ 3,811,200	\$ 3,925,500
Total Operating Revenue	<u>\$146,359,870</u>	<u>\$145,805,600</u>	<u>\$147,670,360</u>
Expenses			
Operating Expenses:			
Salaries	\$51,143,057	\$50,712,200	\$51,440,500
Benefits	25,607,340	25,518,400	26,013,500
Supplies	29,979,681	30,568,700	31,254,100
Services	16,929,546	17,587,000	18,995,200
Lease	1,870,913	1,894,300	1,913,200
Depreciation	9,376,470	9,181,857	8,827,757
Interest	3,432,220	3,369,700	3,314,500
Other	<u>2,576,628</u>	<u>2,378,600</u>	<u>2,402,400</u>
Total Expenses	<u>\$ 140,915,855</u>	<u>\$ 141,210,757</u>	<u>\$ 144,161,157</u>
Net Income (Loss)	<u>\$ 5,444,015</u>	<u>\$ 4,594,843</u>	<u>\$ 3,509,203</u>
Assumptions			
Occupancy Rate	52.95%	53.47%	53.15%
Inpatient Days	37,989	38,179	38,370
Charge per inpatient day	\$ 6,221	\$ 6,735	\$ 7,478
Cost per inpatient day	\$ 3,709	\$ 3,699	\$ 3,757