

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
SEPTEMBER 17, 2020**

**CON REVIEW HG-CO-0820-005
SOUTH CENTRAL REGIONAL MEDICAL CENTER
COST OVERRUN TO CON REVIEW HG-RC-0616-011; CON NUMBER R-0915
(EXPANSION OF AN EXISTING FACILITY AND CONSTRUCTION OF A MEDICAL OFFICE
BUILDING)
ORIGINAL CAPITAL EXPENDITURE: \$35,500,000.00
ADDITIONAL CAPITAL EXPENDITURE: \$6,916,954.00
REVISED CAPITAL EXPENDITURE: \$42,416,954.00
LOCATION: LAUREL, JONES COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

South Central Regional Medical Center (“SCRMC”) is a major medical center located at 1220 Jefferson Street, Laurel, Mississippi 39440. According to the *FY 2015 Report on Hospitals* produced by the Mississippi State Department of Health, Division of Health Facilities Licensure and Certification, South Central Regional Medical Center currently owns and operates a 275-licensed bed facility. South Central Regional Medical Center has seven (7) Board of Trustees members.

B. Project Background

South Central Regional Medical Center (“SCRMC”) was granted Certificate of Need (CON) No. R-0915 on August 25, 2016, for the expansion of an existing facility and the construction of a medical office building (MOB). The applicant affirmed the proposed project consisted of the following: constructing 67,980 square feet of space to the east of the hospital to house a new emergency department, the relocation of a twenty (20) bed orthopedic surgery nursing unit, construction of a 67,815 square feet medical office building to be located on the east side of the proposed newly constructed emergency department and 188,900 square feet of a new parking and paved heliport area.

The applicant asserts the original CON would allow for SCRMC to meet its long range planning goals and to continue to meet the needs of its patients. Furthermore, SCRMC’s board of trustees determined that the proposed project was necessary to expand the hospital, diversify its medical staff to accommodate its growing emergency department caseload, and address the demands for a more technologically specific and new medical office building to accommodate its growing medical staff.

The Mississippi State Department of Health (MSDH), Division of Health Facilities Licensure and Certification issued a letter dated May 31, 2016 approving the site for the Expansion/MOB project. The applicant states the proposed project is 100.00% complete, occupied and open for services to the public.

The applicant affirms once the final finances were compiled, SCRMC noticed the project’s budget was over the original approved capital expenditure. The applicant notified MSDH of the overage prior to submitting their required six-month extension (SME). The applicant affirmed in their SME application, submitted February 26, 2020, that SCRMC would apply for

a CON Amendment/Cost Overrun regarding the proposed project. MSDH granted SCRMC a SME on August 17, 2020 for CON No. R-0915.

The applicant submitted a CON Amendment and Cost Overrun Application to MSDH on August 3, 2020 for CON Review HG-RC-0616-011, CON Number R-0915.

C. Project Description

South Central Regional Medical Center now requests CON authority for a cost overrun of \$6,916,954.00 to CON No. R-0915. The cost overrun application filed with the Department requests CON authority to increase the capital expenditure for CON No. R-0915 from \$35,500,000.00 to \$42,416,954.00.

The applicant states, the capital cost of this project has expanded due to (a) the extended passage of time (interest costs, capitalized interest, staff/labor costs) and (b) the substantial inflation of construction materials and services cost since the submission of the original CON application in 2016.

1. Provide a photocopy of the original Certificate of Need.

The applicant included an original copy of the Certificate of Need.

2. Describe all proposed changes not approved in the original CON application (e.g. changes in square footage, construction or renovation; changes in range, facilities served, or types of services, bed changes; equipment changes; etc.)

The applicant affirms, the capital cost of this project has expanded due to (a) the extended passage of time (interest costs, capitalized interest, staff/labor costs) and (b) the substantial inflation of construction materials and services cost since the original CON application in 2016.

3. If project is related in whole or in part to compliance with requirements of the Licensure and Certification Division of the MSDH, or any other certification or licensing authority, provide documentation.

The applicant affirms this item is not applicable to the proposed project.

4. If the project is related to a construction/expansion project, enclose a copy of the revised cost estimate signed by a licensed architect or licensed Mississippi building contractor.

The applicant attached a signed and revised cost overrun cost estimate from a licensed architect for the Expansion and MOB Project.

a. The applicant states the project contractor, Mac's Construction Company Incorporated was the lowest and best bidder for this project. The applicant affirms the project was not a rebid as a result of increasing costs. The applicant also stated the project contractor continued with the project and the project construction contract was the subject of changed orders.

5. **If actual construction has not begun, give date it will begin and the reasons for the delay.**

The applicant affirms the construction of the project is complete.

6. **Provide evidence that the Division of Radiological Health has approved the plans for provision of radiation therapy services, if applicable.**

The applicant states this item not applicable to the proposed project.

7. **If the project involves the purchase/lease/change in vendor or manufacturer of major medical equipment, not included in the originally approved certificate of need project, provide the following:**

- a. **Type of equipment, capacity and manufacturer;**
- b. **Purchase price of equipment;**
- c. **Purchase and installation date(s) of equipment; and**
- d. **Explanation of cost variance from original quotes.**

The applicant affirms no single item of non-fixed equipment nor any single system of major medical equipment in this project involves a capital expenditure of \$1,500,000.00 or more.

8. **Will the amendment require any change in facility staffing? If so, identify changes in terms of personnel skills, number of personnel and indicate your recruitment plan which will obtain the services of these personnel.**

The applicant states no change in facility staffing is anticipated to occur in relation to any of the changes in the project.

9. **List all transfer/referral/affiliation agreements between your facility and other providers of health care within your service area, which have changed since the original application was submitted or will change as a result of this amendment.**

The applicant affirms this item is not applicable.

10. **Provide the estimated date this project will be implemented/completed if the amendment/cost overrun is granted.**

The applicant states the project is complete and all portions of the project have been opened for service to the general public.

II. TYPE OF REVIEW REQUIRED

The Mississippi State Department of Health reviewed the original project in accordance with Sections 41-7-173, 41-7-191 (1)(j), and 41-7-193 of the Mississippi Code 1972, Annotated, as amended, and duly adopted procedures, plans, criteria, and standards of the Mississippi State Department of Health. This project continues to be in substantial compliance.

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 ten (10) days of publication of the staff analysis. The opportunity to request a hearing expires on September 27, 2020. However, since September 27, 2020, is a Sunday, requests for a hearing will be accepted until Monday, September 28, 2020.

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

A. State Health Plan (SHP)

The applicant affirmed that the proposed project will promote Mississippi's health planning purpose as set forth in the Mississippi State Health Plan (MSHP or Plan), including the following:

- To improve the health of Mississippi residents;
- To increase the accessibility, acceptability, continuity, and quality of health services;
- To prevent unnecessary duplication of health resources; and
- To provide some cost containment.

The *FY 2015 Mississippi State Health Plan (MSHP or Plan)* was in effect at the time the original application was submitted to the Department, and the original application was found to be in substantial compliance with the *FY 2015 MSHP*. The cost overrun project was submitted under the *FY 2020 Mississippi State Health Plan*. The cost overrun is found to be in substantial compliance with the *FY 2020 MSHP*.

B. General Review (GR) Criteria

The *Certificate of Need Review Manual, 2011 Revision* was in effect at the time the original application was submitted to the Department. The original project was in substantial compliance with the *CON Review Manual, 2011 Revision*. The CON amendment and cost overrun application is in compliance with applicable General Review Criteria and Standards contained in the *CON Review Manual, 2019 Revision*.

IV. FINANCIAL ANALYSIS

A. Capital Expenditure Summary

	Approved Amount	Revised Amount	Increase or (Decrease)
1. New Construction Cost	\$25,780,610	\$33,465,602	\$7,684,992
2. Construction/Renovation	0	0	0
3. Land	0	0	0
4. Site Work*	\$978,000	0	(\$978,000)
5. Fixed Equipment	0	0	0
6. Non-Fixed Equipment and Furnishings	\$5,500,000	\$4,395,610	(\$1,104,390)
7. Contingency**	\$617,015	0	(\$617,015)
8. Fees (Architectural, etc.)	\$1,753,060	\$2,123,395	\$370,335
9. Capitalized Interest	\$871,315	\$2,432,348	\$1,561,033
10. Capital Improvement	0	0	0
Total Capital Expenditure	\$35,500,000	\$42,416,954	\$6,916,955

Note: Numbers may not compute due to rounding.

* Included in new construction cost.

** The applicant states project completed with all construction costs included in new construction cost. No contingency now required.

The above capital expenditure table represents a 19.48% or \$6,916,955.00 increase of the original total CON approved capital expenditure. The total square footage of construction is 135,795 square feet. The capital cost of this project has expanded due to (a) extended passage of time (interest costs, capitalized interest, staff/labor costs) and (b) the substantial inflation of construction materials and services cost since the original CON application in 2016.

B. Method of Financing

The applicant states the original project was to be financed by a \$57,745,000.00 USDA Rural Development loan/note. However, in February 2020, the applicant entered into the \$57,745,000.00 USDA note to refinance interim construction, finance and pay for the construction, furnishing and equipping of the Expansion and MOB project. The applicant further states, the funds from the 2020 note will pay off the 2017 bonds and finance the capital expenditures made for the project.

C. Effect on Operating Cost

The applicant's projections of gross revenues and expenses for the first year of operation are shown in Attachment 1.

D. Cost to Medicaid/Medicare

The applicant asserts, there is no anticipated impact on Medicare, Medicaid or other reimbursement agencies.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for review and comment. In a letter dated August 24, 2020, the Division stated that due to a change in reimbursement methodology, the Division could not estimate the increase in cost outlier payment resulting from this CON; therefore, the Division of Medicaid had no opinion on this project.

VI. CONCLUSION AND RECOMMENDATION

This project continues to be in substantial compliance with the criteria and standards for construction, renovation, expansion, or capital improvements as contained in the *FY 2015 Mississippi State Health Plan*, in effect at the time of the original approval; the *Mississippi Certificate of Need Review Manual, 2019 Revision*; and all 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 South Central Regional Medical Center for the cost overrun to CON No. R-0915. The cost overrun project will allow South Central Regional Medical Center to increase the authorized capital expenditure from \$35,500,000.00 to \$42,416,955.00 for the expansion of its existing facility and construction of a medical office building.

Attachment 1

**South Central Regional Medical Center
Cost Overrun to CON No. R-0915
Expansion and MOB Project**

First-Year Operating Statement (2021)

Revenues and Expenses	Year 1
Inpatient Care Revenue	\$1,048,422.00
Outpatient Care Revenue	\$4,117,606.00
Gross Patient Care Revenue	\$5,166,028.00
Charity Care	\$143,721.00
Deductions from Revenue	\$2,838,239.00
Net Patient Care Revenue	\$2,184,068.00
Other Operating Revenue	\$42,092.00
Total Operating Revenue	\$2,226,160.00
Expenses	
Salaries	\$25,661.00
Benefits	\$9,662.00
Depreciation	\$1,316,834.00
Interest	\$486,710.00
Total Operating Expense	\$1,838,867.00
Net Operating Income (Loss)	\$387,294.00
Inpatient Days	43
Outpatient Days	N/A
Procedures	21,858.00
Charge Per Inpatient Day	25,082.00
Charge Per Outpatient Day	N/A
Charge Per Procedure	245.00
Cost Per Inpatient Day	41,797
Cost Per Outpatient Day	N/A
Cost Per Procedure	84