

**DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
AUGUST 2005**

**CON REVIEW: HG-RC-0505-013
MAGEE BENEVOLENT ASSOCIATION D/B/A MAGEE GENERAL HOSPITAL
MODERNIZATION/REPLACEMENT/EXPANSION OF SURGERY,
LABORATORY RADIOLOGY, LABOR AND DELIVERY
CAPITAL EXPENDITURE: \$10,339,892
LOCATION: MAGEE, MISSISSIPPI, SIMPSON COUNTY**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Magee Benevolent Association is a non-profit corporation, authorized to conduct business in Mississippi. Magee General Hospital (MGH) is a 64-bed general acute care hospital with 8 geriatric psychiatric beds. The hospital is owned by Magee Benevolent Association, and governed by an eight-member Board of Trustees.

According to the Application for Renewal of Hospital License for *Calendar Year 2003 and FY 2004 Annual Hospital Report*, MDH, Magee General Hospital participates in the State Trauma System and is classified as a Level IV facility.

The occupancy rates, average lengths of stay (ALOS) and the Medicaid utilization rates for the medical surgical beds are as follows for the three most recent fiscal years:

**Magee General Hospital
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2002	45.75	4.86	12.39
2003	45.69	4.46	15.30
2004	41.68	4.38	16.13

Source: Division of Health Facilities Licensure and Certification, MDH

B. Project Description

Magee General Hospital is requesting Certificate of Need (CON) authority for modernization, replacement and expansion of surgery, laboratory, radiology, labor and delivery departments at the hospital. The proposed project involves 36,500 square feet of complete demolition of existing hospital space which currently houses administration, surgery, laboratory, radiology, outpatient clinics, and labor and delivery. The proposed project will encompass a total of 40,000 square feet of new construction to replace and expand surgery, laboratory, radiology, and labor and delivery at MGH. The applicant states that the new part of the hospital will be constructed as a state-of-the art facility with the ability to expand and grow. It will also include completed space for the referenced departments and shelled-in space for future expansion.

According to the applicant, the proposed project will be implemented in the following two phases:

Phase I of the project consists of the complete demolition of 14,500 square feet of the existing hospital. The affected departments include administration, laboratory, and outpatient clinics. These departments will be housed in temporary space within the remaining hospital buildings during the construction of a new surgical suite and laboratory suite. Upon completion of this phase of construction, laboratory and surgery will be relocated to their new space. The surgery department will contain four operating rooms, an increase of two operating rooms. After the relocation of the surgery departments is complete, the abandoned surgical suite will be completely demolished, and in its place a new radiology department will be constructed. The radiology department will be permanently relocated into its newly constructed suite upon completion of this phase.

According to the MDH's Division of Health Facilities Licensure and Certification, MGH currently has two surgery suites.

According to the applicant, phase II, will involve the administrative department, which will be relocated into existing, freestanding on-campus facilities, allowing the complete demolition of the administrative area, and the construction of a new four-bed labor/delivery and recovery suite, in its place. This phase requires the demolition of approximately 22,000 square feet of existing building.

MGH states that the proposed project also involves extensive site development and landscaping, repair of parking spaces damaged during construction, and the addition of 40 to 50 new parking spaces to the existing 165 parking space capacity.

MGH asserts that all new construction associated with this project has been designed to offer efficient flow of patients through the facility, to discourage and prevent the spread of infectious disease among patients, and to ensure a pleasant and comfortable environment for the patients and their families seeking health care at Magee General Hospital.

According to the MGH, the proposed project does not involve the addition of any new services or any change in the licensed bed capacity. Although the project does involve a change in the number of acute care beds designated for obstetrics from two to four, no change will occur in the licensed bed capacity of 64 acute care beds at MGH.

According to the Applications for Renewal of Hospital License for Calendar Year 2004 and Fiscal Year 2003 Annual Hospital Report, Magee General Hospital is a current provider of obstetrical delivery services with two existing OB beds.

Magee General Hospital proposes to add seven (7) FTE personnel at an estimated annual cost of \$291,825 the first year.

Total proposed capital expenditure of \$10,339,892 is composed of new construction (62 percent), demolition (2.60 percent), fixed equipment (3.38 percent), non-fixed equipment (11.36 percent), site preparation (6.29 percent), fees (6.33 percent), contingency reserve (5.56 percent), and capitalized interest (2.22 percent). (See capital expenditure summary, page 8). The applicant proposed to fund the project with a commercial bank loan from PriorityOne Bank, Magee, Mississippi.

According to the applicant, the proposed capital expenditure will be obligated within three months after CON approval. MGH anticipates that Phase I, which involves surgery, laboratory and portions of radiology, will be completed within three years of commencement or by 2009. MGH anticipates completion of Phase II (which involves radiology, labor and delivery) approximately three years after completing Phase I, or during the summer of 2011.

The application includes a letter from the Division of Health Facilities Licensure and Certification, MDH stating that the site is acceptable for the stated use for the proposed project.

II. TYPE OF REVIEW REQUIRED

Magee General Hospital requests Certificate of Need approval for modernization, replacement, expansion of surgery, laboratory radiology, labor and delivery services is reviewed in accordance with Sections, 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 September 6, 2005.

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

A. State Health Plan (SHP)

The FY 2005 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

MGH asserts that the facility has been cited by the Mississippi Department of Health's Division of Health Facilities Licensure and Certification, in conjunction with the Department of Health and Human Services Centers for Medicare and Medicaid, for being in violation of a variety of life safety code regulations relating to the physical plant. According to the applicant, portions of the facility are very old with inadequate space and proper design for efficient, effective, high quality, modern health care delivery that is trending toward outpatient services. The applicant cites the following deficiencies in its facility:

- The layout of the existing facility is not conducive to easy physical access, and the departments are disjointed and illogically located or grossly undersized.
- The existing laboratory space is inadequate to house the necessary lab equipment needed to provide patients with the best quality health care available.
- Radiology, surgery, labor and delivery, also lack adequate space required for high quality care.
- The MGH's mechanical systems are out-dated, antiquated and a constant source of aggravation because of the continuous need for substantial maintenance and repair.
- The hospital desperately needs additional parking spaces to accommodate the increase in utilization of outpatient services. The application contains a copy of the latest survey report from the Division of Health Facilities Licensure and Certification, MDH, and a copy of a summary statement of deficiencies from the Department of Health and Human Services Centers for Medicare and Medicaid Services concerning Magee General Hospital's physical plant.

The applicant states that MGH retained Stegena+Partners of Atlanta, Georgia in 2004 to conduct a comprehensive facility analysis of the hospital to determine whether or not MGH would be better off to remodel and add on to the existing facility, or to build a new facility on a new site on property facing Highway 49. As a result, Stegena+Partners recommended the following two viable options for MGH: The first and preferable option is to build a new facility on other property facing Highway 49, and the second option is to renovate and add on to the existing facility. The application contains a copy of the comprehensive facility analysis prepared by Stegena+Partners of Atlanta, Georgia concerning the proposed project.

In further justification for the proposed project, MGH submits that the hospital would like to become JCAHO accredited, which is consistent with the long-range goal of the governing board of the hospital of providing the highest quality of health care possible. According to MGH, currently, the hospital does not meet JCAHO standards. The applicant states that the proposed project will correct all deficiencies in surgery, laboratory, radiology, and labor and delivery departments.

SHP Criterion 3 – Charity/Indigent Care

Magee General Hospital states that the hospital provides and will continue to provide a reasonable amount of indigent/charity care.

SHP Criterion 4 – Cost of Project

The applicant proposes to construct approximately 40,000 square feet of new space at an estimated cost of \$222.39 per square foot. Staff calculated the per square foot cost to be 229.12 for the proposed project. See Attachment I. The applicant's square foot cost is below the high range (\$275) for hospital construction as stated in the **Means Construction Cost Data, 2005 Edition**.

MGH's proposed application indicates that there is no renovation associated with this project. The applicant indicates that the entire cost of the proposed project, including expansions, does not exceed 85 percent of the cost of a replacement facility. MGH asserts that the cost of the proposed project is only about one third of the cost of a replacement facility. Although there is no renovation associated with this project, the cost of the proposed project's demolition is only two percent of the total project cost.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, 2000 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

According to MGH, the proposed project is in compliance with all criteria, standards and policies of the **FY 2005 State Health Plan**, which is well documented throughout the proposed Certificate of Need application.

GR Criterion 2 - Long Range Plan

According to the applicant, the modernization/replacement and expansion of structures built in 1936 and 1972, which house surgery, laboratory, radiology and labor and delivery, comports with MGH's goal to provide high quality, efficient and cost effective health care to all residents of its service area and is compatible with its long range plans.

GR Criterion 3 – Availability of Alternatives

The applicant considered and rejected three other alternatives to this project, which included the following:

1. Status Quo. Magee General Hospital could continue operations without making any corrections of the life safety code deficiencies, because waivers have been approved by the Mississippi Department of Health; however, this alternative was rejected. It was not in the interest of the hospital's patients or the hospital's service area. Portions of the building have simply outlived their usefulness and are hopelessly outdated, inefficient, undersized and poorly configured.
2. Renovation. MGH considered renovating the entire hospital physical plant; however, to do so would be extraordinarily costly, with the estimated cost of \$17 million for the renovation alone. Such cost represents only the construction and does not include new medical equipment or other fixed or non-fixed equipment. Finally, renovation on the scale that would be required would be extremely disruptive to the provision of quality health care at the facility.
3. Total Facility Replacement. MGH considered relocating and replacing the entire hospital facility; however, the cost would have been at least three times the cost of the proposed project. The land cost alone would have been \$4.5 million. Consequently, this alternative was rejected as too costly.

The applicant states that there is no reasonable alternative method to address MGH's problems with its physical plant with reference to surgery, laboratory, radiology and labor and delivery than the project described in the proposed application. MGH asserts that portions of the facility are old, inadequate, poorly configured, inefficient and not conducive to the delivery of modern healthcare that is trending toward outpatient services.

GR Criterion 4 - Economic Viability

The application contains a letter signed by the certified public accountant of MGH, attesting to the financial feasibility of this project.

MGH projects net operating income to be \$1,087,902 the first year, \$1,780,208 the second year, and \$1,100,689 the third year after completion of this project.

GR Criterion 5 - Need for the Project

According to the applicant, all residents of the service area of MGH, including low income persons, racial and ethnic minorities, women, handicapped persons, and other under served groups, and the elderly currently have access to all services provided by MGH and will continue to have access to the facility after the proposed project is completed. The applicant believes that access should be enhanced with the proposed project. MGH states that the hospital is a major provider of health services to the citizens of Simpson, Covington, and Smith Counties.

Magee General Hospital states that the original hospital was built in 1936 as a for-profit facility owned by doctors. The north wing was built in 1972, followed by the east wing in 1988. In 2004, the doctors/partners donated all stock in the hospital to the Magee Benevolent Association, which now maintains ownership of the not-for-profit hospital organization.

According to Magee General Hospital, portions of the physical structure at MGH are 69 (1936), 33 (1972) and 17 (1988) years old, respectively. The industry standard for the usefulness of a hospital building is estimated to be 40 years. Consequently, a large portion of MGH is approaching the end of, or far exceeds, its useful life.

As previously mentioned, MGH asserts that all new construction associated with this project has been designed to offer efficient flow of patients through the facility, to discourage and prevent the spread of infectious diseases among patients, and to ensure a pleasant and comfortable environment for the patients and their families seeking health care at the hospital.

The applicant expects that the proposed project will correct all deficiencies in surgery, laboratory, radiology, and labor and delivery departments.

The application contains approximately 35 letters of support for the proposed project.

GR Criterion 6 - Access to the Facility or Service

According to MGH, all residents of the health planning service area, including Medicaid recipients, charity/medically indigent patients, racial and ethnic minorities, women,

handicapped persons and the elderly have access to the services of MGH and will continue to have access to the services, whether the services are outpatient or inpatient services. The hospital offers and will continue to offer services to patients in need of health care without regard to race, age, creed, sex or ethnic origin in full compliance with applicable state and federal regulations.

Magee General Hospital states that during the last three years of operation, approximately three percent (3%) of the hospital's gross patient revenue has been attributable to health care to medically indigent and charity care patients.

GR Criterion 7 - Information Requirement

According to the applicant, Magee General Hospital 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

MGH asserts that there are strong existing relationships within the area's health care system. The applicant believes that the proposed project will not have any adverse impact on the existing health care system in the service area. The proposed project will serve to enhance the quality of care in the area.

GR Criterion 9 - Availability of Resources

The applicant indicates that seven full-time equivalent personnel will be added at an estimated annual cost of \$291,825 the first year.

The applicant asserts that MGH does not anticipate any difficulty in staffing the facility as a result of the proposed project.

According to the applicant, there are numerous nursing and allied health professional schools located within 35 miles of the hospital, which have served MGH well throughout the years. The hospital has agreements in place with The University of Mississippi Medical Center and a professional recruiting firm with reference to the recruitment of physicians.

GR Criterion 10 – Relationship to Ancillary or Support Services

The applicant asserts that with the increase in admissions and utilization comes an increase in the use of ancillary and support services; however, such an increase will not result in an increase in costs or charges for such services. Because of the increase in the size of such departments as laboratory and radiology and the improved quality and efficiency of the equipment in those departments, MGH will have no difficulty in accommodating the increase in the use of the ancillary and support services.

According to MGH, the hospital projects a very conservative growth rate in utilization during the next five years of operation. The increase in admissions and utilization will occur primarily due to changes in the demographic makeup of MGH's service area, which includes Simpson, Covington and Smith counties, and to the facility capturing patients now traveling elsewhere for medical care and recruiting more physicians to join MGH's medical staff.

GR Criterion 14 - Construction Projects

According to the applicant, no renovation is involved in the proposed project. Demolition of 36,500 square feet of existing building of Magee General Hospital at \$7.38 per square foot.

MGH asserts that the proposed project does not involve renovation. The applicant submits that the demolition cost is treated like land cost and is excluded when calculating the cost per square foot with the formula utilized by the Mississippi Department of Health.

However, according to **Means Construction Cost Data, 2005 Edition**, site preparation expenses include demolition, therefore, should be used when calculating cost per square foot utilizing the MDH's formula.

The proposed project involves new construction of 40,000 square feet at \$229.12 per square foot, a cost below the high range as contained in the **Means Construction Cost Data, 2005 Edition**, which lists new construction cost ranging from \$152 to \$275 per square foot for hospitals. See Attachment I for new construction formula for the proposed project.

GR Criterion 16 - Quality of Care

Magee General Hospital is in compliance with **the Minimum Standards for the Operation of Mississippi Hospitals**, according to the Division of Health Facilities Licensure and Certification, MDH. MGH submits that the hospital has a history of providing high quality medical care to the residents of the service area. The hospital has in place a quality improvement program, the purpose of which is to avoid errors and deliver the highest quality of health care to its patients in the most efficient and effective manner with resources available.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

Cost Item	Projected Cost	Percent
New Construction	\$ 6,435,710	62%
Demolition *	\$ 269,186	2.60%
Non-Fixed Equipment	\$ 350,000	11.36%
Fixed Equipment	\$1, 175,099	3.38%
Site Preparation	\$ 650,000	6.29%
Fees (Architectural, Consultant, etc.)	\$ 655,000	6.33%
Contingency Reserve	\$ 575,000	5.56%
Capitalized Interest	\$ 229,897	2.22%
Total Capital Expenditure	\$10,339,892	100%

The applicant proposes new construction of 40,000 square feet at approximately \$229.12 per square foot, and demolition of 36,500 square feet of existing building at \$7.38 per square foot. No renovation is proposed in this project. The **Means Construction Cost Data, 2005 Edition**, lists new construction cost ranging from \$152 to \$275 per square foot for hospitals.

***Means Construction Cost Data, 2005 Edition** indicates that site preparation expenses include demolition.

The proposed project also involves purchases of fixed and non-fixed equipment.

B. Method of Financing

The applicant proposes to finance the project with a commercial bank loan in the amount of \$10,339,892 over a term of 40 years at an interest rate of 4.69 percent. The application included letters from Trustmark National Bank, Magee, Peoples Bank, Magee and PriorityOne Bank, Magee, Mississippi, indicating their interest to finance the proposed project.

According to the MGH, the hospital has been in existence for over 65 years and continues to be a viable, strong health care facility; therefore, the issue of initial operating capital is irrelevant. The hospital has accumulated substantial cash reserves over the years and has no difficulty securing loans when needed.

The application contains a letter signed by the certified public accountant of MGH, attesting to the financial feasibility of this project.

C. Effect on Operating Cost

MGH projects the following expenses, revenues, and utilization for the first three years of operation for the proposed project:

Expenses	Year 1	Year 2	Year3
Salaries & Wages	\$ 6,322,788	\$ 6,910,897	\$ 7,613,767
Employee Benefits	\$ 1,177,350	\$ 1,290,158	\$ 1,411,991
Supplies & Other	\$ 7,199,507	\$ 8,356,104	\$ 9,082,731
Depreciation & Amortization	\$ 845,780	\$ 1,182,074	\$ 1,593,227
Interest	\$ 40,000	\$ 40,000	\$ 295,877
Total Expenses	\$ 15,585,425	\$17,779,233	\$ 19,997,593
Inpatient Revenue	\$ 12,724,013	\$13,439,875	\$13,785,349
Outpatient Revenue	\$ 19,202,043	\$23,512,897	\$26,106,887
Total Patient Rev.	\$ 31,926,056	\$36,952,772	\$39,892,235
Gross Patient Revenue	\$ 31,926,056	\$ 36,952,772	\$ 39,892,236
Deductions	\$(15,586,710)	\$(17,737,331)	\$(19,148,273)
Net Patient Revenue	\$ 16,339,346	\$ 19,215,441	\$ 20,743,963
Other Revenue	\$ 333,981	\$ 344,000	\$ 354,319
Total Revenue	\$ 16,673,327	\$ 19,559,441	\$ 21,098,282
Net Operating Income	\$ 1,087,902	\$ 1,780,208	\$ 1,100,689
Statistics			
Inpatient Days	12,608	13,772	14,263
Cost Per Inpatient Day	\$ 1,236	\$ 1,291	\$ 1,402
Charge Per Inpatient Day	\$ 1,009	\$ 976	\$ 967

D. Cost to Medicaid/Medicare

Patient Mix by Type Payer	Utilization Percentage	First Year Expenses
Medicaid	14%	\$2,181,960
Medicare	58%	\$9,039,546
Other	<u>28%</u>	<u>\$4,363,919</u>
TOTAL	<u>100%</u>	<u>\$15,585,425</u>

MGH projects approximately 4.5 percent of gross revenue for bad debt patients and 1.3 percent for medically indigent and charity care patients.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for review and comment. The Division of Medicaid estimates that the increased annual cost to Medicaid for the capital expenditure will be \$260,635 for inpatient hospital services.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the criteria and standards for the construction, renovation, expansion, capital improvements, replacement, and addition of hospital beds as contained in the **FY 2005 State Health Plan**; the **Mississippi Certificate of Need Review Manual, Revised 2000**; 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 Magee General Hospital for modernization/replacement/expansion of surgery, laboratory radiology, labor and delivery services.

**Magee General Hospital
HG-RC-0505-5013**

Attachment 1

Computation of New Construction Cost

New Construction: 40,000 Square feet

****New Construction Cost**

A.	New Construction	\$6,435,710
C.	Fixed Equipment	350,000
D.	*Site Preparation	919,186
E.	Fees	655,000
F.	Contingency Reserve	575,000
G.	Capitalized Interest	<u>229,897</u>
	Total	\$9,164,793 ÷ 40,000 = \$229.12/sq. ft.

*According to **Mean Construction Cost Data 2005 Edition**, site preparation expenses include demolition cost (\$269,186).

Source: **FY 2005 State Health Plan