

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
JULY 2009**

**CON REVIEW HG-CO-0508-010
KING'S DAUGHTERS MEDICAL CENTER
COST OVERRUN TO CON NO. R-0684
(EXPANSION/RENOVATION OF HOSPITAL)
APPROVED CAPITAL EXPENDITURE: \$11,322,393
ADDITIONAL CAPITAL EXPENDITURE: \$2,924,414
REVISED CAPITAL EXPENDITURE: \$14,256,807
LOCATION: BROOKHAVEN, LINCOLN COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

King's Daughters Medical Center (KDMC) is a 122-bed, short-term, general acute care, non-profit hospital operating under a long-term lease between Lincoln County, Mississippi, and King's Daughters Hospital (KDH). The long-term lease has been in effect since June 1, 1998; however, KDH has held a Charter of Incorporation since October 14, 1914. On May 18, 2005, KDMC received a Certificate of Existence/Authority from the Secretary of State's Office indicating the facility is in good standing with the State of Mississippi.

King's Daughters Medical Center is managed by Quorum Health Resources, LLC, a Delaware Limited Liability Company, and is presently governed by an 11-member Board of Trustees. The facility is licensed for 122 acute care beds, of which 109 beds are set up and staffed.

The occupancy rates, average lengths of stay (ALOS), and the Medicaid utilization rates for KDMC are as follows for the years 2006 through 2008:

**King's Daughters Medical Center
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2006	32.23	3.70	27.28
2007	32.44	3.65	28.53
2008	40.84	3.49	31.33

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

B. Project Background

King's Daughters Medical Center obtained Certificate of Need No. R-0684, effective October 6, 2005, for an expansion/renovation of hospital on April 1, 2009, King's Daughters Medical Center was approved for a six-month extension on CON No. R-0684. This extension period will terminate October 6, 2009.

The original project involves expansion and renovation of 47,345 square feet of hospital space and construction of 13,894 square feet of space designated for new additions to the facility.

C. Project Description

King's Daughters Medical Center now requests Certificate of Need authority for a cost overrun to its CON No. R-0684. King's Daughters Medical Center asserts that the cost overrun is necessary because of significant increase in construction costs since Hurricane Katrina hit the Mississippi Gulf Coast in 2005. The applicant asserts that the cost overrun is needed to cover higher-than-expected costs of construction and the accompanying increase in architectural fees, financing costs associated with the United State Department of Agriculture loan and bond issuance, landscaping, and other unanticipated costs that are incident to the construction/renovation and that can be capitalized such as security services directly related to the construction/renovation.

According to King's Daughters Medical Center, 77 percent of work is completed.

According to the applicant, the capital expenditure approved in the original CON is \$11,322,393 and the additional costs for this cost overrun proposal are \$2,924,414 resulting in a revised capital expenditure of approximately \$14,256,807 for the project. This cost overrun project does not change the scope of the original 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 overruns in accordance with duly adopted rules, procedures, plans, criteria and standard of the Mississippi State Department of Health.

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 13, 2009.

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 2005 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, 2000 revision*, 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	\$8,083,640	\$9,529,661	\$1,446,021
Renovation	Included above	Included above	Included above
Capital Improvements	0	0	0
Land	0	0	0
Site Work	116,898	377,455	260,557
Fixed Equipment	172,000	172,000	0
Non-Fixed Equipment	1,015,801	1,086,955	71,154
Architectural/Engineering Fees	754,000	827,916	73,916
Contingency Reserve	820,054	1,000,000	179,946
Capitalized Interest	350,000	783,973	433,973
Other Cost (specify)			
a. Materials, Testing Survey	20,000	20,000	0
b. Landscaping	0	71,391	71,391
c. Security Services, Utility, etc.	0	387,456	387,456
Total	<u>\$11,332,393</u>	<u>\$14,256,807</u>	<u>\$2,924,414</u>

As previously mentioned, the capital expenditure approved in the original CON is \$11,332,393 and the additional costs for this cost overrun proposal are \$2,924,414, resulting in a revised capital expenditure of approximately \$14,256,807 for the project. This cost overrun project does not change the scope of the original project.

B. Method of Financing

The applicant proposes to finance the proposed cost overrun from accumulated cash reserves.

C. Effect on Operating Cost

The applicant projects the revised gross patient revenue of \$133,716,470, expenses of \$60,963,495, and net income of \$872,682 during the first year of operation for this amendment project.

King's Daughters Medical Center asserts that because the project concerns the expansion and renovation of the hospital, the operating statement cannot be broken down to reflect this project only; therefore, the projections reflect the hospital's total operation.

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

The Division of Medicaid received a copy of this cost overrun application for comment. No written comments were received.

VI. CONCLUSIONS AND RECOMMENDATION

This project continues to be in substantial compliance with the overall objectives of the FY 2005 *State Health Plan; Certificate of Need Review Manual; Revised 2000*; 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 Kings Daughters Medical Center for a cost overrun to CON #R-0684 (Expansion/Renovation of Hospital).