

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

**CON REVIEW HG-A-0109-001  
NORTH MISSISSIPPI MEDICAL CENTER  
AMENDMENT/COST OVERRUN TO CON #R-0771  
(RELOCATION/CONSTRUCTION OF AN OFF SITE  
CENTRAL STERILE AND CASE CART ASSEMBLY  
PROCESSING FACILITY)  
ORIGINAL CAPITAL EXPENDITURE: \$7,515,000  
ADDITIONAL CAPITAL EXPENDITURE: \$4,428,342  
TOTAL CAPITAL EXPENDITURE: \$11,943,342  
LOCATION: TUPELO, LEE COUNTY, MISSISSIPPI**

**STAFF ANALYSIS**

**I. PROJECT SUMMARY**

**A. Applicant Information**

North Mississippi Medical Center (NMMC) is a 650-bed general acute care, short-term medical/surgical hospital. NMMC is a non-profit, tax-exempt, Delaware corporation licensed in Mississippi. It is licensed to operate 554 medical/surgical beds, 20 adult chemical dependency beds, 33 adult psychiatric beds, 13 adolescent chemical dependency beds, and 30 rehabilitation beds. NMMC offers a broad scope of specialty and sub-specialty services as the major regional medical center of the area, General Hospital Service Area 1 (GHSA 1). North Mississippi Medical Center is governed by a 13-member Board. The hospital is accredited by the Joint Commission on the Accreditation of Healthcare Organizations, the Commission on Accreditation of Rehabilitation Facilities, and licensed by the Mississippi State Department of Health (MSDH).

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

**North Mississippi Medical Center  
Utilization Data**

<b>Fiscal Year</b>	<b>Occupancy Rate (%)</b>	<b>ALOS (Days)</b>	<b>Medicaid Utilization Rate (%)</b>
2006	60.65	4.23	14.22
2007	62.17	4.57	11.97
2008	94.52	5.68	21.99

Source: Division of Health Facilities Licensure and Certification,  
MSDH

**B. Project Background**

North Mississippi Medical Center (NMMC) was issued CON No. R-0771, with an effective date of September 25, 2008, and an expiration date of September 25, 2009. The certificate authorized NMMC to relocate/construct an off-site central sterile processing (CSP) facility. The proposed central sterile processing facility will be constructed adjacent to the recently constructed NMMC's warehouse. The scope of the project involves 28,000 square feet of new construction. The building will be divided into three distinct zones. The first zone is the **decontamination zone**, the **second zone** is the **prep/pack (clean) zone** and the third zone is the **sterile zone**.

**C. Project Description**

North Mississippi Medical Center now requests Certificate of Need (CON) authority for an amendment and cost overrun on CON No. R-0771. The applicant states that the request for an amendment and cost overrun is based on two significant changes:

1. **Change in scope of work.** The original approved CON #R-0771 was for a 28,000 square foot building. The proposed new building will be 33,270 square feet or a 19 percent increase in the size of the building.
2. **Cost.** The original approved CON #R-0771 was for \$7,515,000 (Including design, construction cost and major equipment). The cost of the proposed central sterile processing facility is \$11,943,342 or a 59 percent increase in cost of the facility.

North Mississippi Medical Center submits the following as justification of need for the project:

1. Estimate of the cost of the project was based on incomplete information, before final equipment selection, hence, inaccurate.
2. Unrealized extent of special equipment and operational needs, including duplication of all major mechanical and electrical systems and special product needs such as complete stainless steel infrastructure and extensive control of air movement throughout the facility have caused a grossly disproportionate building cost.
3. Consideration of the facility to be an "essential building", designed and constructed with building material capable of sustained, uninterrupted operation during disasters added significant cost.
4. Magnitude of construction and material cost increase was much greater than estimated.

According to the applicant, the anticipated date for obligation of the capital expenditure for the proposed project is 30 days after CON approval.

## II. TYPE OF REVIEW REQUIRED

The original project was reviewed in accordance with Section 41-7-191, subparagraphs (1) (e), and (j) of the Mississippi Code of 1972, Annotated, as amended.

The State Health Officer reviews all projects for amendments and cost overrun in accordance with duly adopted rules, procedures, plans, criteria, and standards of the Mississippi State 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 June 8, 2009.

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

### A. State Health Plan

The original application was in substantial compliance with the *FY 2007 State Health Plan*, in effect at the time the original application was submitted. This amendment and cost overrun project continues to be in substantial compliance with the *State Health Plan*.

### B. General Review Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual*, Revised February 23, 2008; addresses general criteria by which all CON applications are reviewed. This application was in substantial compliance with general review criteria at the time of original submission, and continues to be in compliance with applicable general review criteria and standards contained in the *Manual*.

**IV. FINANCIAL FEASIBILITY**

**A. Capital Expenditure Summary**

	<b><u>Original Approved Capital Expenditure</u></b>	<b><u>Revised Amount</u></b>	<b><u>Increase (Decrease)</u></b>
New Construction	\$3,360,000	\$7,788,342	\$4,428,342
Renovation	0	0	0
Capital Improvements	0	0	0
Land	0	0	0
Site Work	0	0	0
Fixed Equipment	0	0	0
Non-Fixed Equipment	3,475,000	3,475,000	0
Architectural/Engineering Fees	280,000	280,000	0
Contingency Reserve	400,000	400,000	0
Capitalized Interest	0	0	0
Other Cost (specify)	0	0	0
<b>Total</b>	<b>\$7,515,000</b>	<b>\$11,943,342</b>	<b>\$4,428,342</b>

As previously mentioned, the capital expenditure approved in the original CON was \$7,515,000 and the additional costs for this amendment proposal are \$4,428,342 resulting in a revised capital expenditure of approximately \$11,943,342 for the project. The proposed amendment and cost overrun project involves approximately 33,270 square feet of new space at an estimated cost of \$254.53 per square foot (see Attachment 1). The *Means Construction Cost Data, 2009*, lists the costs for hospital construction to range from \$185 to \$315 per square foot.

This amendment is a change in scope from the original project, but does not change the overall objectives of the original project.

**B. Method of Financing**

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

**C. Effect on Operating Cost**

According to the applicant, NMMC's original projected three-year operating statement, revenue, expenses, net income and utilization for the three years of

operation for the original project will slightly increase in cost as a result of the proposed amendment and cost overrun.

**D. Cost to Medicare/Medicaid**

North Mississippi Medical Center asserts that as a support function the proposed project will not generate inpatient and outpatient revenue. Therefore, costs to Medicaid, Medicare and third party payors will be negligible.

**V. RECOMMENDATION OF OTHER AFFECTED AGENCIES**

The Division of Medicaid was provided a copy of this amendment and cost overrun application for review and comment. However, no comments were received.

**VI. CONCLUSIONS AND RECOMMENDATION**

This project continues to be in substantial compliance with the overall objectives of the FY 2007 *State Health Plan; Certificate of Need Review Manual; Revised 2008*; and all adopted rules, procedures, and plans of the Mississippi State Department of Health in effect at the time of approval. The project is a change in scope from the original project, but does not change the overall objectives of the project.

The Division of Health Planning and Resource Development recommends approval of the application submitted by North Mississippi Medical Center for an amendment and cost overrun to CON #R-0771 (relocation/construction of an off-site central sterile processing facility).

**Attachment 1  
 North Mississippi Medical Center  
 HG-A-0109-001  
 Computation of New Construction Cost\***

<b><u>Cost Component</u></b>	<b><u>Total</u></b>	<b><u>New Construction</u></b>
New Construction Cost	\$7,788,342	\$7,788,342
Renovation Cost	0	0
Total Fixed Equipment Cost	0	0
Total Non-Fixed Equipment Cost	3,475,000	0
Land Cost	0	0
Site Preparation Cost	0	0
Fees (Architectural, Consultant, etc.)	280,000	280,000
Contingency Reserve	400,000	400,000
Capitalized Interest	0	0
Other (Furnishings, minor equipment)	0	0
<b>Total Proposed Capital Expenditure</b>	<b>\$11,943,342</b>	<b>\$8,468,342</b>
Square Footage <i>Allocation Percent</i>	<b>33,270</b>	<b>33,270</b> 100%
<b>Costs Less Land, Non-Fixed Eqt. &amp; Other</b>	<b>\$8,468,342</b>	<b>\$8,468,342</b>
<b>Cost Per Square Foot</b>	<b>\$254.53</b>	<b>\$254.53</b>

\*Source: Certificate of Need Review Manual, 2008 Revision