

**DIVISION OF HEALTH PLANNING  
AND RESOURCE DEVELOPMENT  
FEBRUARY 2003**

**CON REVIEW HG-CRF-1102-070  
NEWTON HOSPITAL, INC., dba NEWTON REGIONAL HOSPITAL  
CONSTRUCTION PHASE I OF A 49 BED  
REPLACEMENT/RELOCATION HOSPITAL FACILITY  
NEWTON COUNTY, MISSISSIPPI  
CAPITAL EXPENDITURE: \$6,639,523**

**STAFF ANALYSIS**

**I. PROJECT SUMMARY**

**A. APPLICANT INFORMATION**

Newton Hospital, Incorporated, doing business as Newton Regional Hospital (NRH), is a short- term acute care, 49-bed medical/surgical hospital located in Newton, Mississippi. NRH offers a wide range of general acute care services accompanied by a full medical staff to operate each department in the hospital. Services range from emergency services to out-patient diagnostic services. NRH filed a Charter of Incorporation with the Office of the Secretary of State on January 20, 1983 and is currently authorized to do business in the State of Mississippi. NRH is a 501(c) 3 not-for-profit corporation owned by the citizens of Newton County, District IV, and NRH is presently governed by a five-member Board of Trustees. The facility will be certified to participate in the Medicare and Medicaid programs and has been approved by the Mississippi State Department of Health, Division of Licensure and Certification.

The facility is licensed for 49 beds, 12 of which are designated as geriatric-psychiatric beds. The occupancy rates, average length of stay (ALOS), and Medicaid Utilization for the three most recent years are as follows:

<b>Fiscal Year</b>	<b>Occupancy Rate (%)</b>	<b>ALOS (DAYS)</b>	<b>Medicaid Utilization Rate</b>
<b>1999</b>	40.75	5.35	10.44
<b>2000</b>	35.88	5.32	10.50
<b>2001</b>	34.19	4.18	12.77

## **B. PROJECT DESCRIPTION**

Newton Hospital, Incorporated, doing business as Newton Regional Hospital (NRH), requests Certificate of Need (CON) authority to replace and relocate the existing acute-care hospital and clinics to another site. The applicant states the current hospital facility is 38,339 square feet, 50 years old, and 10 years beyond its useful life. In order to serve the residents in General Hospital Service Area 4 more effectively, the applicant would like to divide the hospital construction into two phases. In Phase I, the applicant requests a CON to construct 30 beds, nine of which will be designated as geriatric psychiatric. In Phase II, the applicant requests to add the remaining 19 acute-care beds. The hospital will be moved from downtown Newton on Main Street to Highway 15, which is two miles north of I-20.

NRH proposes to keep the existing building located at 208 South Main Street, Newton, Mississippi, and establish it as a Community Health Center (CHC) or use the building for offices and storage space. The applicant has provided documentation from the United States Department of Agriculture, Division of Rural Development, stating the Department expects to receive funding to operate the old building as a Community Health Center.

The applicant states that no renovation is needed; however, the hospital will construct 48,935 square feet of space to build a new hospital to relocate NRH to a new site. At this time, the applicant will not add new health services. The applicant provides an estimate from the architect showing a building construction cost of \$5,531,473.00. By using the formula listed in *FY 2003 Mississippi State Health Plan* and Chapter 8 of the *Certificate of Need Manual, 2000 revisions*, the staff calculates the cost to construct 48,935 square feet will be \$124.78 per square foot. However, the applicant calculates \$127.10 per square foot. Based on the *2003 Building Construction Cost Data* book, both calculations are within the median construction cost of \$159 per square foot. The equipment list indicates the total fixed equipment cost is estimated at \$40,000 and the total non-fixed equipment is estimated at \$298,550.

The applicant includes a capital expenditure summary, a Three Year Projected Pro Forma Statement, an audited Financial Statement, and a Financial Feasibility Study from the Chief Financial Officer. The applicant states that the project will not involve changes in staffing at NRH because the facility will utilize existing staff; however, the annual cost to utilize 111.50 employees will be \$3,901,824.00. NRH will use capital from government loans and grants, private foundations, and accumulated cash reserves identified as FHA, a restricted fund, and certificates of deposit to fund the project. Upon the approval of the project, the capital expenditure will be obligated within 180 days. The expected date of expenditure is June 1, 2003, and the projected completion of Phase I of the project is June 1, 2004.

## II. TYPE OF REVIEW REQUESTED

The Mississippi State Department of Health reviews applications for construction, renovation, and major medical equipment acquisition in accordance with Section 41-7-191, subparagraph (1) (f) and (j) Mississippi Code 1972 Annotated, as amended, and 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 of 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 March 6, 2003.

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

### A. State Health Plan (SHP)

The *FY 2003 State Health Plan* contains criteria and standards which the applicant is required to meet before receiving CON authority for the 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**

The Certificate of Need criteria and standards for construction projects outlined in the *FY 2003 Mississippi State Health Plan* state that an entity must document the need for the proposed project. Documentation may consist of, but is not limited to, citing of licensure or regulatory code deficiencies, institutional long-term plans (duly adopted by the governing board), recommendations made by consultant firms, and deficiencies cited by the accreditation agencies (JCAHO, CAP, etc.)

The applicant states the current hospital facility is 38,339 square feet, 50 years old, and 10 years beyond its useful life. The applicant provided documentation from Health Care Facilities (HCF), LLC, stating their findings on the existing hospital site. HCF reviewed the site survey prepared by Engineers and Surveyors, LLC, dated September 16, 1999, and found several major deficiencies in the existing hospital and the site.

These major problems dealing with the existing building are as follows: meeting building requirements to provide quality healthcare; heating, ventilation, and air conditioning problems to filtrate the air; plumbing and sewer deterioration; outdated piping and electrical systems inside of the building.

In addition, HCF stated the following relating to the current site: it would be very difficult to use the current site as a replacement site because it would be hard to keep the existing facility in service while working on the hospital in phases; more land would be needed to address the new building requirements; more money would be spent to create a better building in a depressed area; sewer, pipes for storm water, and city sewer lines would have to be relocated and created; the hospital would have to resort to adding multi-levels to the facility since the site is land-locked without room for expansion; elevation changes, and parking would have to be addressed.

Presently, NRH is participating in the Statewide Trauma System as a Level IV Hospital; NRH's Administrator is the Chairman of the East Central Trauma Care Region; and the Regional Office is located at Newton Regional Hospital. With this in mind, Engineers and Surveyors, LLC, found that the best alternative would be to replace NRH by relocating it to another site in order to provide a state-of-the-art facility for the residents of GHSA 4 and meet the program needs of NRH rather than spend a large sum of money to renovate a deteriorating building that will continue to have many operating problems.

### **SHP Criterion 2- Bed Service Transfer/Reallocation/Relocation**

NRH affirms the hospital will continue to provide quality care to its critical care patients; however, at this time, the applicant will not add new health services but will initially construct 30 acute-care beds (nine of which will be designated as geriatric psychiatric beds) in Phase I, and add the remaining 19 acute-care beds in Phase II of the project .

### **SHP Criterion 3 - Charity/Indigent Care**

The applicant affirms that the hospital serves patients who cannot financially meet their obligation to pay for services rendered and does not limit access to services based on the ability to pay.

### **SHP Criterion 4 - Cost of Proposed Project**

NRH provided documentation in the CON application, that the project does not exceed 15% of the median construction cost for construction projects in the state of Mississippi.

## **SHP Criterion 5 - Floor and Area Specifications**

- The proposed project is comparable to similar projects reviewed by the Department.
- B. General Review (GR) Criteria**

Chapter 8 of the *Mississippi Certificate of Need Review Manual, 2000 revisions*, addresses general criteria by which all CON applications are reviewed. This application is in substantial compliance with general review criteria.

### **GR Criterion 2 - Long Range Plan**

The long range development plan of NRH is to replace and relocate NRH; establish a community health center by obtaining funding from the United States Department of Agriculture, Division of Rural Development, to operate the old building as a Community Health Center; and establish a fitness and rehabilitation center. NRH will continue gero-psychiatric services, rural health clinic services, swing bed services, physical therapy, designated Level IV trauma services, and cataract surgery. Also, NRH will continue to allow physician specialists in cardiology, neurology, and podiatry to visit the facility.

### **GR Criterion 3- Availability of Alternatives**

NRH provided documentation from Health Care Facilities (HCF), LLC, stating their findings on the existing hospital site. HCF reviewed the site survey prepared by Engineers and Surveyors, LLC, dated September 16, 1999, and found several major deficiencies in the existing hospital. The site survey determined that replacing and relocating NRH is the most cost effective method for the facility rather than spend a large sum of money to renovate a deteriorating building that will continue to have many operating problems.

### **GR Criterion 4 - Economic Viability**

The applicant provided a Three Year Projected Pro Forma Statement, an audited Financial Statement, and a Financial Feasibility Study from the Chief Financial Officer to indicate that the hospital will meet operating expenses and other requirements of the project for the first three (3) years after the project is completed. The documents indicate that net profit over a projected three year period will increase from \$7,424,659.00 to \$7,723,247.00. In addition, the statement shows the net income will decrease from \$304,620.00 to \$218,106.00; however, the project will continue to be viable.

### **GR Criterion 5 - Need for the Project**

The applicant states the current hospital facility is 38,339 square feet, 50 years old, and 10 years beyond its useful life. The applicant provided documentation from Health Care Facilities (HCF), LLC stating their findings on the existing hospital site. HCF reviewed the site survey prepared by Engineers and Surveyors, LLC, dated September 16, 1999, and found several major deficiencies in the existing hospital and the site.

These major problems dealing with the existing building are as follows: meeting building requirements to provide quality healthcare; heating, ventilation, and air conditioning problems to filtrate the air; plumbing and sewer deterioration; outdated piping and electrical systems inside of the building.

In addition, the HCF stated the following relating to the current site: it would be very difficult to use the current site as a replacement site because it would be hard to keep the existing facility in service while working on the hospital in phases; more land would be needed to address the new building requirements; more money would be spent to create a better building in a depressed area; sewer, pipes for storm water, and city sewer lines would have to be relocated and created; the hospital would have to resort to adding multi-levels to the facility since the site is land-locked without room for expansion; elevation changes and parking would also have to be addressed.

Presently, NRH is participating in the Statewide Trauma System as a Level IV Hospital; NRH's Administrator is the Chairman of the East Central Trauma Care Region; and the Regional Office is located at Newton Regional Hospital. With this in mind, Engineers and Surveyors, LLC found that the best alternative would be to replace NRH by relocating it to another site in order to provide a state-of-the-art facility for the residents of GHSA 4 and meet the program needs of NRH rather than spend a large sum of money to renovate a deteriorating building that will continue to have many operating problems.

Twenty-two endorsement letters from various community officials were included in the CON application dated November 27, 2002; along with two listings of names from the Newton Chamber of Commerce and the Newton Lions Club supporting the project.

The community officials recognize that NRH complies with all federal regulations regarding community service and support Newton Regional Hospital's efforts to serve all patients in Service Area 4 regardless of race, creed, sex, or ability to pay.

#### **GR Criterion 6- Access to the Facility**

The applicant affirms that the facility will provide services to all residents of Newton County. NRH projects that only 4% of the patients served at the center will be medically indigent patients. The applicant indicates the expected payor mix by type payor will be as follows: Medicaid will be 21%, Medicare 57%, and Private Pay 22%.

#### **GR Criterion 7- Information Requirement**

NRH affirms that it will record and maintain the information required by this criterion and shall make the data available to the Mississippi State Department of Health within fifteen (15) business days of request.

#### **GR Criterion 8 - Relationship to Existing Health Care System**

The applicant states that NRH is presently providing health care services to the community and will continue its efforts to use the local hospital or facility referral system to serve patients in the area. Presently, NRH is participating in the Statewide Trauma System as a Level IV Hospital, is an affiliated member of Rush Foundation Premier Purchasing Network, a member of Baptist Health System Cardiac, a member of the East Central Trauma Care Region Network, and NRH's Administrator is the Chairman of the East Central Trauma Care Region. The applicant affirms that there will be no adverse effect on any health care system within the GHSA 4.

#### **GR Criterion 9 - Availability of Resources**

Staffing for the project will be provided by NRH. The applicant states the hospital will provide management personnel, allied health, support staff, medical staff, and financial resources to ensure the completion and implementation of the proposed project. The applicant indicates that the project will not involve changes in staffing at NRH because the facility will utilize existing staff; however, the annual cost to utilize 111.50 FTE employees will be \$3,901,824.00.

#### **GR Criterion 10 - Relationship to Ancillary or Support Services**

The applicant affirms that there will be no adverse effect on ancillary or support services.

### **GR Criterion 11- Delivery of Health Services**

If additional personnel are needed, the hospital facility will recruit from its existing recruiting efforts and affiliation relationships. Also, NRH will provide clinical needs to health professional training programs in GHSA 4.

### **GR Criterion 12- Access by Health Professional Schools**

The applicant states that the hospital will continue to have a relationship with East Central Community College Nursing and CPR Programs, and Meridian Community College Physical Therapy program to provide a high quality training environment for health care professionals.

### **GR Criterion 13- Access by Other Health Care Entities**

The applicant states that the hospital will continue to have a relationship with many healthcare entities. NRH will continue to provide a Nurse Practitioner for the La-Z-Boy Clinic, have a transfer agreement for the patients from the 120-bed nursing home, Bedford Care Center, have a pre-hospital agreement with EmergyStat Ambulance Service, and provide geriatric psychiatric services to many healthcare providers in the area.

### **GR Criterion 14-Construction Projects**

The hospital will construct 48,935 square feet of space to build a new hospital in order to relocate NRH to the new site. The applicant provides an estimate from the architect showing a building construction cost of \$5,531,473.00. By using the formula listed in *FY 2003 Mississippi State Health Plan* and Chapter 8 of the *Certificate of Need Manual, 2000 revisions*, the staff calculates the cost to construct 48,935 square feet will be \$124.78 per square foot. However, the applicant calculates \$127.10 per square foot. Based on the *2003 Building Construction Cost Data* book, both calculations are within the median construction cost of \$159 per square foot. The equipment list indicates the total fixed equipment cost is estimated at \$40,000 and the total non-fixed equipment is estimated at \$298,550. Also, the applicant provided a schematic drawing to show how the project will look after construction and a letter from the Division of Health Facilities Licensure and Certification verifying site approval.

In addition, the applicant affirmed that NRH complies with state and local building codes, zoning ordinances, and all appropriate regulatory authorities. The applicant has provided written assurance that NRH will comply with state statutes and regulations for the protection of the environment.

**GR Criterion 16- Quality of Care**

Newton Regional Hospital is in compliance with the Minimum Standards of Operations for Mississippi Hospitals. NRH will continue to its active quality assurance and performance improvement programs.

**IV. FINANCIAL FEASIBILITY**

<b>A. CAPITAL EXPENDITURE SUMMARY</b>	
<b>Construction Cost -New</b>	<b>\$5,428,473.00</b>
<b>Fixed Equipment</b>	<b>\$40,000.00</b>
<b>Non-Fixed Equipment</b>	<b>\$298,550.00</b>
<b>Land Cost</b>	<b>\$150,000.00</b>
<b>Fees (Architectural, Consultant, etc.)</b>	<b>\$350,000.00</b>
<b>Contingency Reserve</b>	<b>\$125,000.00</b>
<b>Capitalized Interest</b>	<b>\$162,500.00</b>
<b>Other Cost (Legal, Permits, and Surveys</b>	<b>\$85,000.00</b>
<b>TOTAL PROPOSED CAPITAL EXPENDITURE</b>	<b>\$6,639,523.00</b>

The applicant provides a letter from the architect showing an estimated building construction cost of \$5,531,473.00. By using the formula listed in *FY 2003 Mississippi State Health Plan* and Chapter 8 of the *Certificate of Need Manual, 2000 revisions*, the staff calculates the cost to construct 48,935 square feet will be \$124.78 per square foot. However, the applicant calculates \$127.10 per square foot. Based on the *2003 Building Construction Cost Data* book, both calculations are within the median construction cost of \$159 per square foot. The equipment list indicates the total fixed equipment cost is estimated at \$40,000 and the total non-fixed equipment is estimated at \$298,550.

**B. Method of Financing**

NRH will use capital from government loans and grants, private foundations, and accumulated cash reserves identified as FHA, a restricted fund, and certificate of deposits to finance the proposed project. The applicant submitted an amortization schedule indicating that the loan will be financed at \$6,500,000 at a rate of 4.50%, payable in 480 payments of \$29,221.58 per year.

**C. Effect on Operating Costs**

The applicant projects the following expenses, utilization, and results from operation for the first three years of operation:

	First Year	Second Year	Third Year
<b>Revenues:</b>			
Inpatient-Acute	\$ 4,416,500.00	\$ 4,617,250.00	\$ 4,818,000.00
Inpatient-GPU	\$ 1,688,125.00	\$ 1,688,125.00	\$ 1,688,125.00
Inpatient-SB	\$ 0.00	\$ 0.00	\$ 0.00
Total Inpatient	\$ 6,104,625.00	\$ 6,305,375.00	\$ 6,506,125.00
Outpatient	\$ 2,775,850.00	\$ 2,775,850.00	\$ 2,775,850.00
ER	\$ 1,421,750.00	\$ 1,421,750.00	\$ 1,421,750.00
Clinic	\$ 1,179,750.00	\$ 1,179,750.00	\$ 1,179,750.00
Total Outpatient	\$ 5,377,350.00	\$ 5,377,350.00	\$ 5,377,350.00
Other	\$ 180,000.00	\$ 180,000.00	\$ 180,000.00
<b>Total Revenue</b>	\$ 11,661,975.00	\$ 11,862,725.00	\$ 12,063,475.00
<b>Revenue Deductions:</b>	\$ 4,237,316.00	\$ 4,288,772.00	\$ 4,340,228.00
<b>Net Revenue:</b>	\$ 7,424,659.00	\$ 7,573,953.00	\$ 7,723,247.00
<b>Expenses:</b>			
Salaries	\$ 3,383,023.00	\$ 3,484,514.00	\$ 3,589,049.00
Employee Benefits	\$ 518,801.00	\$ 534,365.00	\$ 550,396.00
Physician Fees	\$ 426,722.00	\$ 439,524.00	\$ 452,709.00

	First Year	Second Year	Third Year
Professional Fees	\$ 24,000.00	\$ 24,000.00	\$ 24,000.00
Purchased Services	\$ 489,100.00	\$ 503,773.00	\$ 518,886.00
Supplies	\$ 978,300.00	\$ 1,007,649.00	\$ 1,037,878.00
Repairs & Maintenance	\$ 42,375.00	\$ 42,375.00	\$ 42,375.00
Leases & Rentals	\$ 24,150.00	\$ 24,150.00	\$ 24,150.00
Utilities	\$ 136,350.00	\$ 140,441.00	\$ 144,654.00
Insurance	\$ 220,000.00	\$ 226,600.00	\$ 233,398.00
Other	\$ 71,218.00	\$ 73,355.00	\$ 75,555.00
Depreciation	\$ 390,000.00	\$ 390,000.00	\$ 390,000.00
Interest	\$ 316,000.00	\$ 316,000.00	\$ 316,000.00
Management	\$ 100,000.00	\$ 103,000.00	\$ 106,090.00
<b>Total Expenses</b>	<b>\$ 7,120,039.00</b>	<b>\$ 7,309,746.00</b>	<b>\$ 7,505,140.00</b>
<b>Net Income:</b>	<b>\$ 304,620.00</b>	<b>\$ 264,207.00</b>	<b>\$ 218,107.00</b>

**D. Cost to Medicaid/Medicare**

Payor	Utilization Percentage	First Year Expense
Medicaid	57%	\$ 4,058,422.20
Medicare	21%	\$ 1,495,208.10
Other	22%	\$ 1,566,408.50
<b>Total</b>	<b>100%</b>	<b>\$ 7,120,038.80</b>

NRH projects 7% percent bad debt. Medically indigent and charity care are approximately 3% and 1% of gross patient revenues.

**Note: The applicant's First Year Operating Expense projections corresponds to the Operating Expense projections posted in the Three-Year Operating Statement.**

**V. RECOMMENDATION OF OTHER AFFECTED AGENCIES**

The Division of Medicaid was provided a copy of this application for comment. According to the Division of Medicaid, this project is expected to increase Medicaid expenditures by approximately \$223,968 annually for inpatient hospital services. The Division of Medicaid does not oppose this project.

**VI. CONCLUSION AND RECOMMENDATION**

This project is in substantial compliance with the criteria and standards for the construction, renovation, expansion, capital improvements, replacement of health care facilities, and addition of hospital beds as contained in the *FY 2003 Mississippi State Health Plan*; Chapter 8 of the *Mississippi Certificate of Need Review Manual, 2000*; 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 this application submitted by Newton Hospital, Incorporated, doing business as Newton Regional Hospital (NRH).