

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

CON REVIEW HG-A-0303-008

**SOUTH CENTRAL REGIONAL MEDICAL CENTER DBA LAUREL
SURGERY AND ENDOSCOPY CENTER, LLC
AMENDMENT, COST OVERRUN, SITE CHANGE AND TRANSFER
OF OWNERSHIP OF CON #R-0535 (ESTABLISHMENT OF A
FREESTANDING AMBULATORY SURGERY FACILITY/SERVICES)
ORIGINAL CAPITAL EXPENDITURE: \$2,500,000
PROPOSED ADDITIONAL CAPITAL EXPENDITURE: \$4,693,780
REVISED CAPITAL EXPENDITURE: \$7,193,781
LOCATION: LAUREL, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicants Information

South Central Regional Medical Center and /or Laurel Surgery and Endoscopy Center, LLC (formerly South Central Regional Medical Center Ambulatory Surgery Center) is a Mississippi limited liability company, of which SCRMC will retain a 51 percent majority interest in . The other member of LLC will be Laurel Physicians, LLC ("the Company") a Mississippi limited liability company, owned by various Jones County physicians/surgeons. The purpose of the limited liability company is to own and operate a freestanding ambulatory surgical center. South Central Regional Medical Center has agreed to convey/change ownership of CON #R-0535 issued March 28, 2002 for the establishment of a freestanding ambulatory surgery facility/services to Laurel Surgery & Endoscopy Center. The conveyance of CON #R-0535 is part of SCRMC's capital contribution in exchange of its membership and ownership interests in Laurel Surgery & Endoscopy Center. The ambulatory surgery facility will be operated/managed by LLC, the managing member of which is Global Surgical Partners, Inc., a medical practice management company.

A Notice of Intent to Change Ownership between SCRMC's ambulatory surgery facility/services, Laurel (**seller**) and Laurel Surgery and Endoscopy Center, LLC (**purchaser**) relative to CON #R-0535 was acknowledged on May 12, 2003 by the Department of Health.

B. Project Background (CON #R-0535)

South Central Regional Medical Center was granted Certificate of Need (CON) #R-0535 on March 28, 2002, with an expiration date of March 28, 2003, for establishment of an ambulatory surgery facility/services on property owned by SCRMC within the designated medical district. The property is located at the corner of Washington Street and 12th Avenue, Laurel. The project consists of the construction of a multi-specialty ambulatory surgery center with two (2) sterile operating rooms and two procedure rooms. Other clinical and administrative areas will also be within the facility. The freestanding ambulatory surgery facility will be approximately 12,500 square feet of space to accommodate a freestanding ambulatory surgery facility. The capital expenditure authorized by CON #R-0535 was \$2,500,000.

C. Project Description

South Central Regional Medial Center and/or Laurel Surgery & Endoscopy Center, LLC is requesting CON authority for an amendment and/ or cost overrun and site change (**not a part of the original project**). The applicants assert that the purpose of the proposed project is simply to authorize an alternate location more than one mile away from the originally proposed project site and to provide notice that a third party facility manager will be utilized.

SCRMC and/or Laurel Surgery & Endoscopy Center, LLC assert that originally the proposed ambulatory surgery facility/services was to be constructed on SCRMC's property located at the corner of Washington Street and 12th Avenue in Laurel (**original site**). SCRMC and/or Laurel Surgery & Endoscopy Center, LLC have subsequently encountered an opportunity to lease property located on West 12th Street, Laurel, Mississippi more than a mile from the original site (**new site not a part of the originate CON application**).

According to the applicants, a single purpose Mississippi limited liability company (the Company) will expend approximately \$4,693,780 to plan, design, build and finish a facility in which SCRMC or LLC will lease approximately 15,000 square feet (up from 12,500 square feet proposed in the original CON application) to house its freestanding ambulatory surgery facility/services as authorized by CON #R-0535. The lease will be a capital lease inasmuch as title to the facility to house the ambulatory surgery facility will not transfer to the lessee at the end of the lease term; the lease contains no bargain purchase option at less than fair market value at the time of the exercise of such an option; the initial lease term is for 15 years with renewal options of up to 15 more years for a total term of 30 years, which is at least 75 percent of the leased property's 40 year estimated economic life; and the present value of the minimum lease payments under the lease is 90 percent or more of the fair market value of the leased property. The ambulatory surgery facility/services will be operated/managed by LLC, the managing member of which is Global, a medical practice management company which is not a health care provider. The application contains a proposed lease agreement between Laurel Physicians, LLC, and Laurel Surgery & Endoscopy Center, LLC concerning the proposed amendment project.

According to the applicant, the Company's expenditures to create the facility in which the ambulatory surgery facility/services is to be located will cost \$506,504.88 more than estimated in the original CON application due to the relocation of the proposed facility and increases in the size of the ambulatory surgery facility resultant from a greater number of physicians indicating an interest in utilizing the facility.

According to the applicant, there have been no changes in the officers and directors since the original Certificate of Need (CON #R-0535) was approved. Consequently, an estimated increase of four (4) FTE personnel is projected as necessary to staff the ambulatory surgery facility, over the 17 FTE personnel projected in the original CON application. The total annual cost of personnel for the ambulatory surgery center is now projected to be \$720,000, up from \$535,000 in the original CON application.

The application contains a letter form the MSDH Division of Health Facilities Licensure and Certification approving the site for the proposed amendment project.

II. TYPE OF REVIEW REQUIRED

The State Health Officer reviews all projects for amendment and or cost overrun/site change in accordance with duly adopted procedures and standards of the Mississippi State Department of Health.

In accordance with Section 41-7-192 (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 on July 2, 2003.

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

A. State Health Plan

The original application was found to be in substantial compliance with the Plan in effect at the time the application was reviewed. This amendment continues to be in substantial compliance with the Plan. However, as previously mentioned, this amendment project does not change the scope and overall objectives of the original project.

B. General Review Criteria

The original application was found to be in substantial compliance with the general review criteria contained in Chapter 8 of the Mississippi Certificate of Need Review Manual, 1997 revisions.

This application continues to be in substantial compliance with Chapter 8 of the Mississippi Certificate of Need Review Manual, Revised May 13, 2000.

The project involves a site change more than one mile away from the originally proposed project site, and an increase in capital expenditure and transfer of CON #R-0535. As previously stated, the amendment does not change the overall objectives of the original

project.

IV. FINANCIAL ANALYSIS

A. Capital Expenditure Summary

A comparison of the original and revised expenditures is as follows:

Item	Original Approved	Current Request	Increase or (Decrease)
New Construction+	\$1,500,000	\$1,017,665	\$ (482,335)
Tenant Improvements	-0-	\$2,042,035	\$2,042,035
Land+	-0-	\$ 200,000	\$ 200,000
Fixed Equipment+	\$250,000	\$ 500,000	\$ 250,000
Non-Fixed Equipment***	\$650,000	\$1,200,000	\$ 550,000
Contingency++	\$100,000	\$ 175,000	\$ 75,000
Fees (Architectural, Consultant, Etc.)++	-0-**	\$379,477.50	\$379,477.50
Capitalized Interest++	-0-**	\$1,679,603	\$1,679,603
Total Capital Expenditure	\$2,500,000	\$7,193,780.50	\$4,693,780.50

** Included in new construction cost.

***Non-fixed equipment (\$1,200,000) will be leased by applicants.

+Capital Expenditure by Company, not applicants.

++Split capital expenditure by Company (\$1,488,839.88) and Applicants (\$745,240.62).

According to the applicants, the project has yet to commenced due to the delay involved in reevaluating the site. No capital expenditure has been made to date and the percentage of completion is zero percent.

2. Method of Financing

The original application indicated that the project would be financed through accumulated cash reserve. The proposed amendment, cost overrun, site change and transfer of CON #R-0535 project will be financed through a commercial bank loan. The application contains a letter from Bancorp South Bank, Laurel, stating its willingness to finance the amendment project.

3. Effect on Operating Cost

The applicants project the following increase in expenses, revenues and utilization for the first year of operation as a result of the proposed amendment and/or cost overrun/site change and transfer of CON #R-0535 (**not a part of the original CON application**).

Items	First Year
Salaries and Wages	\$720,000
Employee Benefits	\$144,000
Supplies	\$595,550
Administrative Support Services	\$237,427
Miscellaneous	\$120,000
Utilities	\$ 75,000
Housekeeping	\$ 15,000
Laundry and Linen	\$ 21,750
Insurance	\$ 50,000
Promotion	\$ 30,000
Telephone	\$ 12,000
Equipment Maintenance	\$ 20,000
Bad Debts	\$ 67,836
Charity/indigent care	\$333,090
Depreciation-Equipment	\$214,000
Facility Lease	\$375,000
Interest Expense -Equipment	\$113,980
Interest Expense - Working Capital	\$ 73,877

Total Expense	\$3,218,510
----------------------	--------------------

Revenues

Avg. No. Surgeries	2,566
Avg. No. Procedures	2,930
Avg. Charge Per Surgeries	\$ 2,500
Avg. Charge Per Procedures	\$ 1,600
Avg. Cost Per Surgery	\$ 175.00
Avg. Cost Per Procedures	\$ 50.00
Avg. Reimbursement Per Surgery	\$ 941.00
Avg. Reimbursement Per Procedure	\$ 602.24
Gross Rev.	\$11,103,000
Deductions	\$(6,590,741)
Net Rev.	\$ 4,512,259
Net Income	\$1,293,749

D. Cost to Medicaid/Medicare

According to the applicant, there will be no change in the percentage of the specified groups (**proposed in the original, CON #R-0535**), which are expected to utilize this service as a result of this project.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for comment and no comments have been received as of this writing.

VI. CONCLUSION AND RECOMMENDATION

The original application was found to be in substantial compliance with the overall objectives of the Mississippi State Health Plan, Mississippi Certificate of Need Review Manual, and all adopted rules, procedures, and plans of the Mississippi State Department of Health in effect at the time of the approval. The project continues to be in substantial compliance with applicable criteria and standards and adopted rules, procedures and plans of the Department.

The Division of Health Planning and Resource Development recommends approval of this amended application submitted by and on behalf of South Central Regional Medical Center/Laurel Surgery & Endoscopy Center, LLC for an amendment, cost overrun, site change and transfer of CON #R-0535.