

**DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
FEBRUARY 2006**

**CON REVIEW: HG-C-1205-049
FORREST GENERAL HOSPITAL
CONSTRUCTION, RELOCATION/TRANSFER OF
THIRTY (30) EXISTING ORTHOPEDIC BEDS
CAPITAL EXPENDITURE: \$31,264,770
LOCATION: HATTIESBURG, FORREST COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Forrest General Hospital (FGH) is a 512-bed general acute-care medical surgical facility. The hospital is a not-for-profit tax exempt institution, owned by Forrest County, Mississippi. The hospital is governed by a seven-member Board of Trustees. FGH is accredited by the Joint Commission on the Accreditation of Healthcare Organizations and licensed by the Mississippi Department of Health.

The licensed bed capacity of the hospital is made up of 404 medical surgical beds, 40 adult psychiatric beds, 16 child/adolescent psychiatric beds, 20 rehabilitation beds, and 32 adult chemical dependency beds.

The occupancy rates, average lengths of stay (ALOS), and the Medicaid utilization rates for the medical surgical beds (404) at FGH are as follows for the three most recent fiscal years:

**Forrest General Hospital
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2002	64.70	4.72	24.00
2003	61.24	4.59	29.16
2004	61.97	4.61	25.17

Source: Division of Health Facilities Licensure and Certification, Mississippi Department of Health, (MDH).

B. Project Description

Forrest General Hospital is requesting Certificate of Need (CON) authority to construct and relocate/transfer thirty (30) existing orthopedic beds to a new freestanding satellite orthopedic institute campus. The facility will be located on a site adjacent to Southern Bone and Joint Specialists, P.A. facilities, approximate five minute travel time from FGH. The transfer of 30 licensed acute care inpatient beds from FGH to the orthopedic institute will be coming out of the older wing of the hospital. The current beds in these older wings of the hospital are becoming physically and functionally obsolete. The transfer of 30 existing orthopedic service beds from FGH to the new freestanding orthopedic institute campus will

enable the hospital to transfer some medical/surgical acute care beds to the "tower" building. This will also consolidate inpatient nursing care into fewer buildings and thereby enhance access for families and nursing care. The older wings are narrower than the newer inpatient buildings. Reinvestment of large capital dollars in these buildings will not yield a good return on investment over the long term, due to the limitations of the older buildings.

According to FGH, the hospital will enter into an operating lease for the building which will house the freestanding orthopedic institute. The application includes construction costs, site preparation and related costs as part of the capital expenditure for the project because those costs will be incurred by the developer and "by or on behalf of " FGH. However, due to the structure of this arrangement, FGH will lease the building and will not be required to expend the capital costs associated with the facility's construction. The only capital expenditure to be incurred directly by FGH consists of \$2,000,000 for major moveable equipment. This arrangement will enable FGH to implement the project in a very cost-effective manner. The application contains a copy of the operating lease agreement between FGH and Southern Bone & Joint Specialists, P.A.

The proposed project will encompass a total of 67,296 square feet of new construction.

According to Forrest General Hospital, the following describes the new construction of the proposed project:

Forrest General Hospital New Construction

New Construction Estimated at 67,296 square feet

- New construction of approximately 67,296 square feet (freestanding orthopedic institute) contiguous to an existing medical office building on Highway 11.
- Site preparation and development for approximately 5.74 acres and over 200 surface parking spaces.
- Transfer of 30 existing licensed orthopedic beds (medical/surgical category) from FGH campus to the new orthopedic institute location. These rooms will be larger than the existing FGH orthopedic unit patient bed rooms to conform to the clearances required for modern inpatient beds with orthopedic attachments and the American with Disabilities Act regulations for handicapped accessibility.
- Provision of four new large specialty orthopedic operating rooms, four pre-op bays, six post-op stage, and one PACU bay.
- Provision of twenty-two prep and stage two recovery rooms.
- Ancillary support services to include: registration, satellite lab, satellite unit based physical therapy/occupational therapy, x-ray, CT, and support services.

According to the applicant, currently there are 37 orthopedic beds designated for orthopedic services at FGH. The proposed relocation/transfer of 30 existing medical surgical beds will reduce the bed capacity at the main campus by 30 beds. Forrest General Hospital contends that the proposed project entails no licensed bed increases or decreases and no change in the range or types of services offered at the hospital.

The total proposed capital expenditure of \$31,264,770 is composed of new construction (48.84 percent), fixed equipment (9.51 percent), non-fixed equipment (4.38 percent), land (2.06 percent), fees (5.98 percent), site preparation cost (7.20 percent), contingency reserve (9.11 percent), capital interest (6.53 percent) and major moveable equipment (6.40 percent). See capital expenditure summary, page 9.

As previously mentioned, the only capital expenditure to be incurred directly by FGH consists of \$2,000,000 for major moveable equipment, which will be funded from FGH's accumulated cash reserve. FGH will lease the building from Southern Bone and Joint Specialists, P.A. and will not be required to expend the capital costs associated with the facility's construction. The remaining \$29,264,770 of the proposed project's capital expenditure will be incurred by the developer, Southern Development Resources, LLC, an affiliate of Southern Bone and Joint Specialists, P.A.

The MDH Division of Health Facilities Licensure and Certification has approved the site for the proposed project.

According to the applicant, the capital expenditure for the proposed project will be obligated within 30 days of CON approval, and is expected to be completed within 36 months thereafter.

II. TYPE OF REVIEW REQUIRED

This project is reviewed in accordance with Sections 41-7-191, subparagraph (1)(b), (e), (f) and (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 March 7, 2006.

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

A. State Health Plan (SHP)

The **FY 2006 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

According to Forrest General Hospital, there are numerous clinical and operational benefits to be derived from developing the proposed project in a new satellite facility. FGH's justification for the proposed project is profiled in the following need analysis:

- The applicant contends that the recommendation to develop a new freestanding satellite orthopedic institute is based on existing constraints in the current physical plant of the hospital. The current area of FGH in which orthopedic services are located does not lend itself to effective renovation and expansion.
- The orthopedic service line needs larger and more specialized patient rooms, and newer operating rooms equipped with higher and more specialized technology.
- The existing orthopedic unit at FGH creates particular problems for orthopedic patients, many of whom use wheelchairs and walkers.
- It is very difficult for these patients to access the bathroom facilities and move about in the room, due to inadequate size. The applicant believes that it will not be feasible to construct orthopedic patient rooms or orthopedic specialty operating rooms to meet today's new standards within the confines of the hospital, due to site and building constraints. By developing the orthopedic institute in a freestanding building, patient rooms can be designed and constructed according to industry standards. The end product will be a facility which meets the clinical needs of orthopedic patients served at Forrest General Hospital.

According to FGH, the hospital will be able to take advantage of a facility design and layout specifically tailored to orthopedic care. Rather than having to work within the constraints and confines of the existing hospital structure, the proposed orthopedic institute will be designed to achieve optimum clinical efficiencies through a layout which enhances patient flow and the medical services provided to those patients. Moreover, orthopedic patients will have much easier access to the orthopedic facility. The layout will allow for ample parking to reduce the distance patients and their families must walk to access the facility. Forrest General Hospital contends that the relocation of the orthopedic service line from FGH to the freestanding satellite facility will reduce traffic on FGH's main campus; thereby, greatly improving patient access and convenience at both locations.

The applicant asserts that another significant benefit of the proposed project is its close proximity to an orthopedic surgery group consisting of ten orthopedic surgeons. These physicians will have immediate access to patients and the surgical services offered at the satellite facility. This will enable the physicians to respond more quickly and efficiently to the needs of their patients.

SHP Criterion 3 – Charity/Indigent Care

Forrest General Hospital affirms it will provide a reasonable amount of indigent/charity care, as described in the Plan.

SHP Criterion 4 – Cost of Project

According to FGH, the cost of the project is \$371.56 per square foot based on the MDH formula.

The applicant contends that the equipment cost for the project will not exceed the median costs for equipment of similar quality by more than 15 percent of the median costs for similar projects approved by the MDH in the most recent 12 months.

The applicant proposes new construction of 67,296 square feet of space at an estimated cost of \$ 404.97 per square foot. (See Attachment 1).

SHP Criterion 5 – Floor Areas and Space Requirements

Forrest General Hospital asserts that the gross square footage (67,296 sq. ft.) of the project is comparable to national standards recommended for hospital services.

SHP Criterion 6 – Renovation versus Replacement

FGH indicates that this criterion does not apply to the proposed project, because the proposed project involves the relocation of existing services at FGH.

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 FGH, the proposed project is in full compliance with all criteria, standards and policies of the **FY 2006 State Health Plan**.

GR Criterion 2 - Long Range Plan

According to the applicant, the proposed project has been approved by the hospital's Board of Trustees and is consistent with FGH's long-range plan.

GR Criterion 3 – Availability of Alternatives

The applicant contends that FGH is recommending moving its orthopedic services line to the new orthopedic institute campus, after exploring the following alternative planning scenarios:

Alternate Scenario 1. FGH asserts that expanding the orthopedic service on the existing campus would involve an extremely complex and difficult renovation and expansion to larger and more specialized operating rooms. The hospital recommended not proceeding with this alternate scenario for expanding orthopedic operating rooms in the existing surgery suite at FGH for the following reasons:

1. Difficulty in timing project work may result in delay of up to three years;
2. Heating, ventilation and air conditioning (HVAC) problems in meeting American Institute of Architects (AIA) guidelines minimum standards for OR air quality, with existing systems in this zone;
3. Infection control risk – American Society of Healthcare Engineers (ASHE) currently has put in place much stricter controls for renovation projects in operational surgery suites to protect infection control (thereby adding to phasing time premiums and cost);
4. Overall surgery department and current ancillary support is already too limited for the OR's at FGH. Adding OR's, the department will further take prime storage/support space away from the core area of the existing OR's.

Alternate Scenario 2. Expanding the orthopedic specialty service to a new pavilion on the existing campus. The applicant asserts that in this scenario the hospital would expand the operating rooms and relocate existing beds to a new pavilion connected to the main hospital on FGH campus. The location selected was in a former medical office building directly across from the hospital front driveway and main lobby. This site is available, but limited in size, by the Pat Harrison Waterway property, which FGH does not own. This project would require the hospital to move the functions in the existing medical office building and displace prime employee parking. Forrest General Hospital believes this alternate would require FGH to expand surface parking, which is not an optimal solution, because this may alienate the adjacent community and push the hospital's employee parking further away.

According to FGH, the potential to develop either alternative 1 or alternative 2 would delay FGH's proposed project by years. Adoption of either of alternative would also forge the opportunity to partner on the same site as Hattiesburg's largest orthopedic specialty physician group, Southern Bone & Joint Specialists, P.A. This would forge the potential synergies and FGH's desires to work with its physicians to develop a truly regional program by being on the same campus. The hospital growth strategy is aligned with FGH's physicians, so developing the orthopedic institute on the same campus with their practice will build the physical plant model FGH desires to support its clinical practice objectives.

GR Criterion 4 - Economic Viability

The application contains a letter signed by the chief financial officer of FGH, attesting to the financial feasibility of this project for Forrest General Hospital.

Forrest General Hospital projects losses to be \$2,323,000 the first year and \$831,000 the second year, and net income of \$155,000 in the third year after completion of this project. See effect on operating cost, page 10.

GR Criterion 5 - Need for the Project

The applicant asserts that the hospital provides health care services to any individual who comes to it in need of such services regardless of age, creed, sex, race, or ability to pay.

The applicant contends that by developing the proposed satellite orthopedic institute, FGH will be able to meet both its immediate and long-term patient needs by constructing a facility specifically designed to facilitate the care and treatment of orthopedic patients. According to

the applicant, the current, outdated facilities will be replaced with a state-of-the-art facility that will elevate the quality of patient care, allow for immediate access by a large orthopedic surgery group, and provide adequate space for future growth in the area of orthopedics.

Forrest General Hospital asserts that the hospital has experienced capacity constraints for years in terms of high quality, larger and more technologically capable specialty operating rooms. Renovation and expansion of operating rooms have become increasingly complex, as the operating suite is in an older building and land-locked by other departments. Phasing for projects in the operating room is often at a premium in construction costs, putting the costs at the equivalent of new construction.

According to the applicant, transferring some operating room capacity from the hospital campus to the satellite orthopedic institute campus will enable some much needed staff and support areas to be added back to the operating room areas, without the cost of phasing problems or relocating adjacent departments. The vacated medium-sized operating rooms in the existing surgery department at FGH will be re-commissioned for other specialty cases and growth.

According to FGH, one of the primary goals for building the new freestanding orthopedic institute is to provide a continuum of care for orthopedic specialty service on the new orthopedic institute campus. Inpatient and outpatient services will be provided together on the same campus. This will focus access for all of FGH's orthopedic clinical service line on one campus with both hospital services and physician offices in an integrated care delivery model.

Forrest General Hospital projects 1,288 orthopedic surgeries for year one, 1,301 for year two, and 1,327 for year three of operation for the proposed project.

The application contains three letters of support from physicians affiliated with Southern Bone and Joint Specialists, P. A. for the project. No letters of opposition were received for the proposed project.

GR Criterion 6 - Access to the Facility or Service

According to FGH, the hospital serves all of the population, including low income, racial and ethnic minorities, handicapped persons, and women.

The following table shows the percentage of estimated gross patient revenue and actual dollar amount of health care provided to Medicaid and medically indigent patients for the past three fiscal years at FGH:

Fiscal Year	Percent of Gross Patient Revenue	Dollar Amount
2002	5.3	\$24,602,000
2003	2.8	\$14,236,000
2004	3.8	\$21,832,000

GR Criterion 7 - Information Requirement

Forrest General Hospital affirms that it 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

Forrest General Hospital is located in General Hospital Service Area 6. According to the applicant, the proposed project involves only the relocation of 30 existing acute care orthopedic beds.

Forrest General Hospital contends that the proposed project does not involve the offering of new health care services or new licensed beds and therefore, the relationship of the services proposed in this project will not affect the current services provided in the existing healthcare system.

GR Criterion 9 - Availability of Resources

According to the applicant, the project involves an addition of 51.6 full-time equivalent personnel at an estimated annual cost of \$1,549,660. The applicant states that the recruitment of additional staff will be through the hospital's human resource department and the availability of staff appears to be sufficient within the region to pursue this project.

GR Criterion 10 – Relationship to Ancillary or Support Services

The applicant asserts that ancillary and support services for the proposed project will be provided on site for the facility specific needs and from the main campus of FGH.

GR Criterion 14 - Construction Projects

The applicant proposes new construction of 67,296 square feet of new space at an estimated cost of \$404.97 per square foot, calculated using the formula set forth in the **FY 2006 State Health Plan** (see Attachment I.) The **Means Construction Cost Data, 2005**, shows the high range per square foot cost of new construction of hospitals to be \$275.

GR Criterion 16 - Quality of Care

Forrest 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. Forrest General Hospital is accredited by the Joint Commission on Accreditation of Health Care Organizations.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

Cost Item	Projected Cost	Percent
New Construction	\$ 15,269,290	48.84%
Non-Fixed Equipment	\$ 1,368,082	4.38%
Fixed Equipment	\$ 2,974,830	9.50%
Land Cost	\$ 643,750	2.06%
Site Preparation	\$ 2,250,000	7.20%
Capital Interest	\$ 2,041,728	6.53%
Fees (Architectural, Consultant, etc.)	\$ 1,869,309	5.98%
Contingency Reserve	\$ 2,847,781	9.11%
Major Moveable Equipment	\$ 2,000,000	6.40%
Total Capital Expenditure	\$ 31,264,770	100.00%

The above capital expenditure is proposed for new construction, relocation/transfer of 30 existing orthopedic beds. The project involves new construction of 67,296 square feet of new space at an estimated cost of \$404.97 per square foot. The **Means Construction Cost Data, 2005**, shows the high range per square foot cost of new construction to be \$275. The proposed project also involves the purchase of fixed and non-fixed equipment.

B. Method of Financing

As previously stated above, the only capital expenditure to be incurred directly by FGH consists of \$2,000,000 for major moveable equipment, which will be funded from FGH's accumulated cash reserve. FGH will lease the building from Southern Bone and Joint Specialists, P.A. and will not be required to expend the capital costs associated with the facility's construction. The remainder of \$29,264,770 of the proposed project's capital expenditure will be incurred by the developer, Southern Development Resources, LLC, an affiliate of Southern Bone and Joint Specialists, P.A.

The application contains a letter signed by the chief financial officer of FGH, attesting to the financial feasibility of this project for FGH.

C. Effect on Operating Cost

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

Expenses	Year 1	Year 2	Year 3
Salary & Wage	\$ 1,295,000	\$ 1,347,000	\$ 1,401,000
Benefits	\$ 259,000	\$ 269,000	\$ 280,000
Contractual Services	\$ 436,000	\$ 450,000	\$ 463,000
Supplies-Medical	\$ 5,179,000	\$ 5,334,000	\$ 5,494,000
Supplies-Non Medical	\$ 22,000	\$ 23,000	\$ 23,000
Travel & Education	\$ 90,000	\$ 93,000	\$ 96,000
Other Direct Ancillary	\$ 1,376,000	\$ 1,417,000	\$ 1,460,000
Other Indirect Cost	\$ 2,741,000	\$ 2,823,000	\$ 2,908,000
Leases and Rentals	\$ 2,796,000	\$ 2,796,000	\$ 2,796,000
Other Expense	\$ 494,000	\$ 509,000	\$ 524,000
Insurance	\$ 283,000	\$ 291,000	\$ 300,000
Depreciation & Amort.	\$ 400,000	\$ 400,000	\$ 400,000
Total Expenses	<u>\$15,371,000</u>	<u>\$15,752,000</u>	<u>\$16,145,000</u>
<u>Revenue</u>			
Gross Patient Rev.	\$ 32,399,000	\$ 36,924,000	\$ 40,216,000
Deductions	\$(19,351,000)	\$(22,003,000)	\$(23,916,000)
Net Patient Revenue	\$ 13,048,000	\$ 14,921,000	\$ 16,300,000
Net Operating Income (loss)	<u>\$ (2,323,000)</u>	<u>\$ (831,000)</u>	<u>\$ (155,000)</u>
<u>Utilization</u>			
Patient Days	7,336	8,067	8,473
Cost/Pt. Day	\$ 2,095	\$1,953	\$1,906
Charge/Pt. Day	\$ 4,416	\$4,577	\$4,746

D. Cost to Medicaid/Medicare

Patient Mix by Type Payer	Utilization Percentage	First Year Expenses
Medicaid	7.7	\$ 1,183,567
Medicare	66.2	\$ 10,175,602
Other	26.1	\$ 4,011,831
Total	100	\$ 15,371,000

Forrest General Hospital projects 8.5 percent of gross patient revenue for bad debt patients and 1.8 percent for charity care patients.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for review and comment. According to the Division of Medicaid, outpatient services are paid as outlined in the **State Medicaid Plan**. The Division of Medicaid took no position on the proposed project.

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 2006 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 Forrest General Hospital for construction, and relocation/transfer of 30 existing orthopedic beds.

**Forrest General Hospital
HG-C-1205-049**

Attachment 1

Computation of New Construction Cost

New Construction: 67,296 Square Feet

*New Construction Cost Formula

A.	New Construction	\$15,269,290	
C.	Fixed Equipment	2,974,830	
D.	Site Preparation	2,250,000	
E.	Fees	1,869,309	
F.	Contingency Reserve	2,847,781	
G.	Capitalized Interest	<u>2,041,728</u>	
	Total	<u>\$27,252,938</u>	÷ 67,296 = \$404.97

*Source: **FY 2006 State Health Plan**