

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
MAY 2011**

**CON REVIEW HG-A-0311-005
SINGING RIVER HEALTH SYSTEM D/B/A OCEAN SPRINGS HOSPITAL
AMENDMENT TO CON #R-0751
(CONSTRUCTION OF OBSERVATION UNIT
AND OUTPATIENT SERVICE IMPROVEMENT)
APPROVED CAPITAL EXPENDITURE: \$13,879,110
ADDITIONAL CAPITAL EXPENDITURE: \$1,484,999
REVISED CAPITAL EXPENDITURE: \$15,364,109
LOCATION: OCEAN SPRINGS, JACKSON COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Singing River Health System (SRHS) is composed of Singing River Hospital (404 licensed beds) in Pascagoula, Mississippi, and Ocean Springs Hospital (136 licensed beds) in Ocean Springs, Mississippi. Both hospitals are voluntary, not-for-profit institutions, publicly owned and operated by the citizens of Jackson County, Mississippi. SRHS is governed by a nine-member Board of Trustees appointed by the Jackson County Board of Supervisors. Members are appointed as representatives from each District, with two members being appointed from the county at-large. SRHS is fully accredited by the Joint Commission on Accreditation of Healthcare Organizations, has over 200 Physicians on its respective medical staffs, and employs approximately 2,000 people, making it one of the largest health care systems in the state.

Ocean Springs Hospital's occupancy rates, average length of stay (ALOS), and Medicaid utilization for the three most recent years are as follow:

**Ocean Springs Hospital
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2008	64.80	4.39	9.27
2009	67.15	4.34	13.63
2010	72.50	4.28	14.54

Source: Division of Health Facilities Licensure and Certification, MSDH

B. Project Background

Singing River Health System d/b/a Ocean Springs Hospital (OSH) was issued CON #R-0751, with an effective date of September 27, 2007, for construction of observation unit and outpatient services improvements, with an extended expiration date of September 27, 2011, pursuant to an Attorney General's Opinion issued October 12, 2007, which led to the revision of the policy for CON extensions. The original project involved a total of 38,215 square feet of space, to include 33,715 square feet of new construction and 4,500 square feet of renovated space. The project entails building a two-story addition to the current facility to provide physical space for the expansion of existing outpatient treatment services, a new 20-bed observation unit, physician offices, storage space and meeting and conference rooms. The project does not involve the addition of acute care beds.

Ocean Springs Hospital's original cost of new construction was estimated to be \$349.76 per square foot and \$149.78 per square foot for renovation. The original proposal also included purchase of non-fixed equipment.

Ocean Springs Hospital's six-month extension request submitted to the Department on February 28, 2011, asserts that 17 percent of the project is complete and the estimated date of completion for the project is May 2012.

The applicant was approved for the proposed capital expenditure of \$13,879,110, which included the following: new construction (73 percent), renovation (3 percent), non-fixed equipment (10 percent), other costs (0.04 percent), contingency reserve (6 percent) and fees (8 percent). The original proposal was to be financed from cash reserves.

C. Project Description

Singing River Health System d/b/a Ocean Springs Hospital requests Certificate of Need authority for an amendment and additional capital expenditure to its CON No. R-0751. The capital expenditure approved in the original CON is \$13,879,110 and the additional request for this amendment proposal is \$1,484,999, resulting in a revised capital expenditure of approximately \$15,364,109 for the project.

As a result of this amendment project the square footage for new construction will increase from 33,715 to 49,067, an increase of 15,352 square feet; however, the square footage for renovation (4,500) will remain the same. The amendment request will allow for a third floor shell to be added to the existing project. This amendment project does not change the scope of the original project.

See Attachment 1 for computation of new construction and renovation cost (original plus additional square feet) for the project.

The applicant asserts that the amendment is necessary due to Singing River Health System d/b/a Ocean Springs Hospital's increase in construction cost which represents the cost to construct the third floor shell. Approval and subsequent construction of the third floor shell in conjunction with the approved project will allow the hospital system to enjoy very favorable pricing. If the third floor shell is not built during the initial construction phase, the cost of adding a third floor at a later date will likely be three to four times the cost of doing it simultaneously with the initial construction. This is due to simple logistics and phasing of the project. Ocean Springs Hospital asserts that the increased contingency costs relate to the third floor shell.

According to the applicant, SRHS has not identified any particular use of the third floor space at this time. However, the applicant believes that adding the third floor as part of the on-going construction project will accomplish several important goals. First, it is much more economical to construct the additional floor. Additionally, adding the third floor as part of this project will eliminate the severe disruptions to patients that would occur if a third floor were added at a later date. From the standpoint of both hospital operations and construction logistics, it is far preferable to construct a shelled-in third floor as part of this project. Finally, by having space available to serve future needs, OSH will be able to accommodate future growth in an efficient and cost-effective manner. The applicant states that the campus of OSH is land-locked. Consequently, the only feasible way to expand the hospital to meet community needs going forward is to build up rather than out. This construction project presents a unique opportunity to accomplish that goal through a modest additional investment.

Singing River Health System d/b/a Ocean Springs Hospital asserts that \$2,423,383.57 of the original capital expenditure (CON No.R-0751) has been spent for the proposed project.

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 amendment 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 June 6, 2011.

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 2007 *State Health Plan* in effect at the time the original application was submitted. This amendment 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, 2006 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	\$10,114,500	\$11,154,497	\$1,039,997
Renovation	450,000	450,000	0
Capital Improvements	0	0	0
Land	0	0	0
Site Work	0	0	0
Fixed Equipment	0	0	0
Non-Fixed Equipment	1,328,000	1,328,000	0
Architectural/Engineering Fees	1,056,450	1,278,951	222,501
Contingency Reserve	845,160	1,067,661	222,501
Capitalized Interest	0	0	0
Other Costs	85,000	85,000	0
Total	<u>\$13,879,110</u>	<u>\$15,364,109</u>	<u>\$1,484,999</u>

As previously mentioned, the capital expenditure approved in the original CON was \$13,879,110 and the additional costs for this amendment proposal are \$1,484,999 resulting in a revised capital expenditure of approximately \$15,364,109. This amendment project does not change the scope of the original project.

B. Method of Financing

According to the applicant, this amendment project will be funded from hospital's cash reserves.

C. Effect on Operating Cost

According to the applicant, this amendment project will not materially affect the hospital's costs or charges per day. It is anticipated that the project will be funded with cash reserves. The expenditure will be accounted for on the applicant's balance sheet as a capital expenditure, as an asset, and an additional annual expense to depreciation of \$37,150 which will show up as a reduction to excess margin on the income statement.

D. Cost to Medicare/Medicaid

The proposed amendment project has not changed from the original project. The applicant asserts that this amendment project will not have any impact on Medicaid patients, Medicare patients, or other payors. According to the applicant, the third floor construction project will result in only a nominal increase in annual depreciation expense, and will not have an impact on hospital charges or payments.

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, outpatient services are paid based on a facility's cost to charge ratio, as outlined in the Medicaid State Plan. Any services resulting from this expansion project will be reimbursed using that methodology. Consequently, any additional cost to the Division of Medicaid cannot be determined at this time. The Division of Medicaid opposes this project.

VI. CONCLUSIONS AND RECOMMENDATION

This project continues to be in substantial compliance with the overall objectives of the *State Health Plan; 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 approval.

The Division of Health Planning and Resource Development recommends approval of the application submitted by Singing River Health System d/b/a Ocean Springs Hospital for an amendment to CON #R-0751 (construction of observation unit and outpatient service improvements).

Attachment 1
Ocean Springs Hospital
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Computation of New Construction and Renovation Cost
(Original plus Additional Square Feet)

<u>Cost Component</u>	<u>Total</u>	<u>New Construction</u>	<u>Renovation</u>
New Construction	\$11,154,497	\$11,154,497	
Renovation	450,000		450,000
Fixed Equipment	0	0	0
Non-Fixed Equipment	1,328,000	0	0
Land	0	0	0
Site Preparation	0	0	0
Fees (Architectural, Consultant, etc.)	1,278,951	222,501	222,501
Contingency Reserve	845,160	1,067,661	222,501
Capitalized Interest	0	0	0
Other Costs	85,000	0	0
Total Revised Capital Expenditure	\$15,364,109	\$11,376,998	\$895,002
Square Footage Allocation Percent	53,567	49,067 91.59%	4,500 8.40%
Cost Less Land, Non-Fixed Eqt. & Capital Improvement/Other Cost	\$13,951,109	\$11,376,998	\$895,002
Cost per Square Foot	\$286.82	\$231.85	\$198.88

The *RSMeans Building Construction Cost Data, 2011 Edition* states that the cost per square foot ranges from \$184 - \$315 for new construction.

Source: Mississippi Certificate of Need Review Manual, Revised May 1, 2010

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