

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

**CON REVIEW: HG-RC-0611-012
MEMORIAL HOSPITAL AT GULFPORT
PATIENT TOWER EXPANSION AND RENOVATION
CAPITAL EXPENDITURE: \$58,785,711
LOCATION: GULFPORT, HARRISON COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Memorial Hospital at Gulfport is a nonprofit, community acute care general hospital, jointly owned by the City of Gulfport and the Gulfport West Harrison County Hospital District. The facility is governed by a seven-member Board of Trustees.

Memorial Hospital at Gulfport is licensed for 445 beds. The occupancy rates, average length of stay (ALOS), and Medicaid utilization for the three most recent years are as follows for the years 2008 through 2010:

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2010	60.24	4.88	N/A
2009	59.15	4.94	N/A
2008	66.99	5.22	19.72

Source: Division of Health Facilities Licensure and Certification,
Mississippi State Department of Health (MSDH)

B. Project Description

Memorial Hospital at Gulfport (Memorial Hospital) requests Certificate of Need (CON) authority for a patient tower expansion and renovation.

The applicant states that the proposed project will involve 75,000 square feet of new construction and 108,900 square feet of renovation. The project contemplates an enlargement of patient rooms on Floors 3, 4, and 5 of the current Patient Tower. The increase in the size of the patient rooms will be accomplished by the addition of two new floors (6 & 7) to the Patient Tower. Floors 6 and 7 will consist of four twelve-bed wings for a total of 96 beds. The current Floors 3, 4, and 5 will then be completely renovated. This renovation will consist of making three rooms into two rooms and will result in the same four twelve-bed wings as those planned on Floor 6 and 7. The net result of the new construction and renovation described herein will be 240 patient rooms. There will be no increase in total licensed beds as a result of this project.

All patient rooms will have an infrastructure for telemetry, and a progressive care unit will occupy one wing on the newly renovated fifth floor.

The applicant states that the proposed project will provide a new exterior for the Patient Tower and will correct current deficiencies in the brick veneer exterior by replacing it with a curtain wall. This renovation will allow for enhancements to fire protection in portions of the Patient Tower, and will provide for upgrades to aging mechanical, electrical and medical gas systems. With regard to current patient rooms, this project will allow the existing undersized patient rooms to be enlarged and modernized. Additionally, the current layout of the patient floors is inefficient for current patient care services and provides insufficient inpatient support space. The correction of these facility space and design deficiencies will provide appropriate space for the rendering of health care services and the infrastructure to appropriately support the space while greatly enhancing the patient experience at the Hospital.

The applicant projects an addition of 4.0 FTE personnel for the proposed project at an annual cost of \$200,000.00.

The total capital expenditure for the proposed project is \$58,785,711.

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

If the proposed project is approved, the applicant asserts that the project shall commence by March 2012, and be completed by March 2016.

II. TYPE OF REVIEW REQUIRED

This project is reviewed in accordance with Section 41-7-191, subparagraph (1) (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 September 5, 2011.

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

A. State Health Plan (SHP)

The *FY 2011 Mississippi State Health Plan* contains criteria and standards which the applicant is required to meet before receiving CON authority for construction, renovation, and expansion. This application is in compliance with applicable criteria and standards.

SHP Criterion 1- Need

The proposed project requests approval of a Certificate of Need to be issued to Memorial Hospital at Gulfport for patient tower expansion and renovation. Components of this expansion/renovation involve patient room enlargement, exterior and interior renovation, and infrastructure modernization and efficiency

improvements.

Memorial Hospital states that no new institutional health services or additional licensed beds are proposed as a part of the project.

SHP Criterion 2 - Bed Service Transfer/Reallocation/Relocation

This criterion is not applicable to the proposed project.

SHP Criterion 3 - Charity/Indigent Care

Memorial Hospital at Gulfport asserts that it will continue to provide a significant amount of indigent/charity care. Memorial Hospital affirmed that the hospital provided over \$70 million of indigent/charity care for FY 2010.

SHP Criterion 4 - Cost of Proposed Project

- a. **Cost per Square Foot:** The applicant states that the proposed project consists of approximately 75,000 square feet of new construction at \$278.79 per square foot and 108,900 square feet of renovation at \$275.38 per square foot. The RSMeans Building Construction Cost Data, 2011 Edition states that the cost per square foot for construction of a hospital ranges from \$184-\$315. Therefore, Memorial Hospital at Gulfport estimated cost of \$278.79 per square foot of new construction is within the average cost when compared to hospital construction projects listed in the RSMeans Building Construction Cost Data, 2011 Edition. The RSMeans Building Construction Cost data, 2011 Edition does not compare costs of renovation projects. Memorial Hospital states that projects previously approved by MSDH have ranged from \$66.24 to \$319.15 in renovation costs per square foot, and from \$180.65 to \$402.78 in new construction costs per square foot. The applicant believes that this reflects that hospitals in the state are experiencing a broad range of construction costs, based on the particular circumstances of each project. Therefore, the applicant believes that their projected renovation cost of \$275.38 per square foot, and new construction cost of \$278.79 per square foot, fall within range of formerly approved projects by MSDH. The applicant affirms that Memorial Hospital has worked closely with project architects to present a cost estimate that is both reasonable and accurate.
- b. **Equipment Cost:** The applicant has projected total non-fixed costs of \$7,088,211 which calculates to 12.06% of the total capital expenditure. The applicant states that these costs are within a reasonable amount when compared with the equipment costs of other hospital construction and renovation projects approved by the MSDH. The applicant states that these costs are within a reasonable amount when compared with the equipment costs of other hospital construction and renovation projects approved by the MSDH.

SHP Criterion 5 - Floor Area and Space Requirements

- a. The applicant asserts that the gross square footage of the proposed project for both the construction and renovation compares favorably with state and national norms for similar projects.
- b. The applicant asserts that this criterion is not applicable to the proposed project.

- c. The applicant asserts that this criterion is not applicable to the proposed project.

SHP Criterion 6 - Renovation versus Replacement Facility

The applicant affirms that the cost of the proposed construction/renovation project does not exceed 85% of the cost of a replacement facility.

SHP Criterion 7 - Need for Service

The applicant does not propose new services as a result of the proposed project.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, May 1, 2010, Revision*, addresses general criteria by which all CON applications are reviewed. This application is in substantial compliance with general review criteria.

GR Criterion 1 – State Health Plan

The proposed project is consistent with the *FY 2011 State Health Plan*.

GR Criterion 2 – Long Range Plan

The applicant submits that the long range goal of the hospital is to provide high quality facilities and services to patients seeking health care services at Memorial Hospital at Gulfport. The applicant states that the proposed construction and renovation will encompass upgrades to aging structures and replacement of equipment; improvement of operational efficiencies; addition of two floors to the Patient Tower; enlargement of current patient rooms; improvement in fire protection and replacement of the brick veneer exterior of the Patient Tower; correction of facility space; design deficiencies and provision of an appropriate infrastructure to support the new space. The applicant believes that the proposed project once completed will significantly enhance the patient care provided at Memorial Hospital.

GR Criterion 3 – Availability of Alternatives

The applicant suggests that the hospital could have chosen not to construct or renovate space for the purpose of improving the Patient Tower. However, if this alternative were chosen, patients would continue to experience disruption in services resulting from operational inefficiencies and space configurations not conducive to efficient delivery of patient care.

The applicant believes that modernization of existing space as well as construction of new space on an as needed basis exhibits financially sound analysis for the provision of services in the most cost effective and efficient manner. According to the applicant, the proposed project will greatly benefit the patients of the service area, principally because of the enhancements to the facility and improvements in patient care.

The applicant suggests that the proposed project will foster improvements needed to provide high quality services and meet the changing trends in health care service delivery.

The applicant concluded that the proposed project is the most efficient and cost effective method to meet the needs of the patients seeking services at Memorial Hospital.

GR Criterion 4 – Economic Viability

Based on the applicant's three-year projected operating statement contained in the application, the applicant indicates a net operating income on the project of \$7,180,000 the first year 7,752,500 the second year, and 6,527,000 the third year of operation.

- a. **Proposed Charge:** The applicant states that the proposed charges and profit-loss projections are reasonable and consistent with the experience of comparable facilities.
- b. **Projected Levels of Utilization:** The applicant states that the projected levels of utilization for the hospital are consistent with the experience of comparable facilities in the service area and the state.
- c. **Project's Financial Feasibility Study:** The application contained a letter from the Vice President of Finance of Memorial Hospital at Gulfport attesting to the financial feasibility of the project.

GR Criterion 5 – Need for Project

- a. **Access by Population Served:** The applicant affirms that all residents of the service area, in particular low income persons, racial and ethnic minorities, women, handicapped persons, and the elderly, will continue to have access to the facility.
- b. **Relocation of Services:** The applicant suggests that the proposed construction/renovation will enhance the service delivery of Memorial Hospital. The applicant states that this application does not entail the relocation of services.
- c. **Probable Effect on Existing Facilities in the Area:** The applicant asserts that the proposed project should have no adverse effect on existing facilities.
- d. **Community Reaction:** The application contained one letter of support for the proposed project.

GR Criterion 6 – Access to the Facility or Service

- a. **Medically Underserved Population:** According to the applicant, all patients of the service area, including Medicaid recipients, charity/medically indigent patients, racial and ethnic minorities, women, handicapped persons, and the elderly, will have access to the services of the facility.
- b. **Performance in Meeting Federal Obligations:** The applicant submits that Memorial Hospital has no obligations under federal regulations requiring uncompensated care, community service, or access by minority/handicapped persons.

- c. Unmet Needs to be Served by Applicant:** The applicant states that Memorial Hospital will be certified for participation in Medicare and Medicaid. The applicant affirms that no restrictions or advantages will be placed on care based on payor source, creed, national origin or disability.

The following table shows the projected estimated gross patient revenues of health care provided to charity/medically indigent patients for years one and two for the proposed project:

Gross Patient Revenue		
Projected Year	Medically Indigent	Charity Care
1	\$38,375,500 (2.5%)	\$52,191,000 (3.4%)
2	\$39,527,000 (2.5%)	\$53,757,670 (3.4%)

The proposed facility will operate Monday through Sunday, 24 hours per day.

GR Criterion 7 – Information Requirement

Memorial Hospital at Gulfport affirmed that it will record and maintain the information required by this criterion and make it available to the Mississippi State Department of Health within 15 business days of request.

GR Criterion 8 – Relationship to Existing Health Care System

Memorial Hospital asserts that the proposed project will complement the existing health care facilities and services offered within the service area without adverse impact.

The applicant believes that once the proposed project is completed it will enhance the health care system by providing health care resources needed by the community. The applicant states that if the proposed project is not implemented, the result will be an adverse impact to patients seeking services at Memorial Hospital at Gulfport.

GR Criterion 9 – Availability of Resources

The applicant states that Memorial Hospital has demonstrated a satisfactory staffing history. The applicant projects an addition of 4.0 FTE personnel for the proposed project at an annual cost of \$200,000.

The applicant affirms that Memorial Hospital will recruit needed personnel from its present recruiting efforts and affiliation arrangements.

GR Criterion 10– Relationship to Ancillary or Support Services

The applicant asserts that any additional support or ancillary services needed as a result of the proposed project are available at the hospital through existing staff and resources. The applicant does not anticipate any changes in cost or charges as a direct result of the proposed project.

GR Criterion 11 – Health Professional Training Programs

According to the applicant, Memorial Hospital participates in health professional training programs and will continue to do so.

GR Criterion 12 – Access by Health Professional Schools

The applicant affirms that Memorial Hospital at Gulfport has a track record of providing high quality health care services to their patients. Therefore, the applicant suggests that Memorial Hospital at Gulfport's proposed project can meet the clinical needs of health professional training programs.

GR Criterion 14 – Construction Projects

- a. **Cost Estimate:** The application contains schematic drawings and a site plan of the project. In addition, the application contained a cost estimate from Blich Knevel Architects.
- b. **Schematic Drawing:** The application contains a schematic drawing of the proposed project.
- c. **Space Allocations:** The applicant submits that space will conform to applicable local and state licensing standards.
- d. **New Construction Projects:** The applicant states that the proposed project consists of approximately 75,000 square feet of new construction.
- e. **Cost per Square Foot:** The proposed project consists of approximately 75,000 square feet of new construction at \$278.79 per square foot. The RSMeans Building Construction Cost Data, 2011 Edition states that the cost per square foot for new construction of a hospital ranges from \$184 - \$315. Therefore, Memorial Hospital at Gulfport estimated cost of \$278.79 per square foot of new construction is within the average cost when compared to hospital construction projects listed in the RSMeans Building Construction Cost Data, 2011 Edition. The RSMeans Building Construction Cost data, 2011 Edition does not compare costs of renovation projects.

GR Criterion 16 – Quality of Care

Memorial Hospital at Gulfport believes that the construction and renovation contemplated by this CON proposal will significantly improve the quality of care and delivery of services in the imaging and emergency departments of the hospital.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

The total estimated capital expenditure is allocated as follows:

	Item	Cost	Percentage of Total
a.	Construction Cost – New	\$11,500,000	19.56%
b.	Construction Cost – Renovation	\$27,500,000	46.78%
c.	Capital Improvements	\$ 0	0.00%
d.	Total Fixed Equipment Cost	\$ 7,695,000	13.09%
e.	Total Non-Fixed Equipment Cost	\$ 7,088,211	12.06%
f.	Land Cost	\$ 0	0.00%
g.	Site Preparation Cost	\$ 0	0.00%
h.	Fees (architectural, consulting, etc.)	\$ 3,202,500	5.45%
i.	Fees (legal and accounting)	\$ 50,000	0.09%
j.	Contingency Reserve	\$ 113,525	0.19%
k.	Capitalized Interest	\$ 1,000,000	1.70%
l.	Other (CON Purchase)	\$ 750,000	1.28%
	Total Proposed Capital Expenditure	\$58,785,711	100%

Memorial Hospital at Gulfport proposes to renovate and expand their current patient tower.

The applicant states that the proposed project consists of approximately 75,000 square feet of new construction at \$278.79 per square foot and 108,900 square feet of renovation at \$275.38 per square foot. The RSMeans Building Construction Cost Data, 2011 Edition states that the cost per square foot for construction of a hospital ranges from \$184-\$315. Therefore, Memorial Hospital at Gulfport estimated cost of \$278.79 per square foot of new construction is within the average cost when compared to hospital construction projects listed in the RSMeans Building Construction Cost Data, 2011 Edition. The RSMeans Building Construction Cost data, 2011 Edition does not compare costs of renovation projects.

The application contained a letter from the Vice President of Finance of Memorial Hospital at Gulfport attesting to the financial feasibility of the project.

B. Method of Financing

The applicant intends to finance the proposed project with cash reserves.

C. Effect on Operating Cost

The Three-Year Projected Operating Statement is presented in Attachment 1 of the staff analysis for the entire facility including the proposed project. The applicant submits that the proposed project will incur expenses of \$159,000 the first year, \$173,500 the second year and \$236,000 the third year. The proposed project is non-revenue producing.

D. Cost to Medicaid/Medicare

The applicant's projection to third party payors is as follows:

Patient Mix by Payor	Utilization Percentage	First Year Revenue
Medicaid	15%	245,193,000
Medicare	45%	726,193,000
Other	40%	659,454,000
Total	100%	\$1,630,840,000

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for comment. The Division of Medicaid states that based on their analysis the increased annual cost to Medicaid will be \$460,185 in inpatient hospital services. The Division of Medicaid affirms that any portion which may relate to outpatient services will be paid as outlined in the *2010 State Health Plan*. The Division of Medicaid opposes 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 of health care facilities, and addition of hospital beds as contained in the *FY 2011 Mississippi State Health Plan*; Chapter 8 of the *Mississippi Certificate of Need Review Manual, May 1, 2010*, 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 Memorial Hospital at Gulfport for patient tower expansion and renovation.

ATTACHMENT 1

**Memorial Hospital at Gulfport
 Patient Tower Expansion & Renovation
 Three-Year Operating Statement**

	Year 1	Year 2	Year 3
Revenue			
Inpatient Care Revenue	\$ 924,980,000	\$ 952,059,000	\$ 979,949,000
Outpatient Revenue	<u>705,860,000</u>	<u>727,177,000</u>	<u>749,138,000</u>
Gross Patient Revenue	\$1,630,840,000	\$1,679,236,000	\$1,729,087,000
Charity	\$ 79,499,000	\$ 81,900,000	\$ 84,374,000
Deductions from Revenue	1,226,519,000	1,263,867,000	1,302,356,000
Net Patient Care Revenue	\$ 324,822,000	\$ 333,469,000	\$ 342,357,000
Other Operating Revenue	48,007,000	48,430,000	48,890,000
Total Operating Revenue	\$ <u>372,829,000</u>	\$ <u>381,899,000</u>	\$ <u>391,247,000</u>
Operating Expenses			
Salaries	\$ 161,293,000	\$ 165,618,000	\$ 170,274,000
Benefits	32,177,000	33,229,000	34,317,000
Supplies	62,261,000	64,630,500	67,085,000
Services	33,531,000	34,704,000	35,918,000
Lease Expenses	6,345,000	6,379,000	6,412,000
Depreciation	21,663,000	21,958,000	21,452,000
Interest	4,489,000	4,302,000	4,103,000
Other	43,890,000	43,496,000	45,159,000
Total Operating Expenses	\$ <u>365,649,000</u>	\$ <u>374,316,500</u>	\$ <u>384,720,000</u>
Net Operating Income	\$ 7,180,000	\$ 7,582,500	\$ 6,527,000
Inpatient Days	89,763	91,597	93,529
Outpatient Visits	233,677	238,351	243,118
Charge per outpatient day	\$ 3,021	\$ 3,051	\$ 3,081
Charge per inpatient day	\$ 10,305	\$ 10,394	\$ 10,477
Cost per outpatient day	\$ 1,565	\$ 1,570	\$ 1,582
Cost per inpatient day	\$ 4,073	\$ 4,087	\$ 4,113