

**DIVISION OF HEALTH PLANNING AND
RESOURCE DEVELOPMENT
FEBRUARY 2012**

**CON REVIEW: HG-CB-1211-027
SINGING RIVER HEALTH SYSTEM
D/B/A SINGING RIVER HOSPITAL
ADDITION OF LEVEL II COMPREHENSIVE
MEDICAL REHABILITATION BEDS
CAPITAL EXPENDITURE: \$690,000
LOCATION: PASCAGOULA, JACKSON COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Singing River Hospital System (SRHS) d/b/a Singing River Hospital (“SRH”) is a short-term, general acute care, public hospital owned by Jackson County. The facility is governed by a nine-member Board of Trustees. The hospital is certified to participate in the Blue Cross, Medicare, and Medicaid programs. Also, the hospital is accredited by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO).

The 435 licensed bed capacity of the hospital consists of 385 acute, 30 psychiatric, and 20 rehabilitation beds. The occupancy rates, average lengths of stay (ALOS), and the Medicaid utilization rates for the most recent three years are as follows:

**Singing River Hospital
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2008	25.53	4.18	12.00
2009	24.60	4.09	N/A
2010	24.63	3.82	16.00

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

B. Project Description

Singing River Hospital requests Certificate of Need (CON) authority for the addition of eight Level II Comprehensive Medical Rehabilitation (CMR) beds to the hospital. The addition of the eight beds will increase its licensed rehabilitation bed capacity to 28 CMR beds. The applicant documents that the Hospital has the capacity to add these eight beds at a nominal cost by renovating 4,176 square feet of space on the fourth floor of the hospital. The applicant submits that the proposed space is currently being occupied by the gymnasium and administrative offices, which will be relocated to the first floor of the Hospital. The projected space on the first floor of the hospital, where the gymnasium and administrative offices will be relocated, is currently vacant. The applicant asserts that the proposed project does not require any new construction on the first or fourth floor to accommodate the relocation. The renovation for the proposed project will be in compliance with all applicable licensure and certification standards, as well as the state statutes and regulations for the protection of the environment. The application contains a schematic drawing of the floor plan for the fourth floor, which details the layout of the single patient rooms and other areas that will be necessary to operate the CMR unit.

According to the applicant, the capital expenditure for the proposed project is \$690,000 and is allocated as follows: 84 percent for renovation; 4 percent for fixed equipment cost; 5 percent for non-fixed equipment; and 7 percent for fees (architectural, consultant, etcetera). The applicant intends to finance the proposed capital expenditure from the hospital's accumulated cash reserves. The project is expected to require an additional 9.0 full-time equivalent employees (FTEs) at an estimated annual cost of \$344,480.

On December 1, 2011, the Mississippi State Department of Health Division of Health Facilities Licensure and Certification found the property located at 2809 Bienville Boulevard, Pascagoula, Mississippi to be acceptable and granted site approval.

The applicant asserts that the proposed capital expenditure will be obligated January 1, 2012, and the anticipated date for completion will be September 30, 2012.

II. TYPE OF REVIEW REQUIRED

The Mississippi State Department of Health reviews applications for the establishment, offering, or expansion of comprehensive medical rehabilitation beds and/or services under the statutory requirement of Sections 41-7-173, 41-7-191, subparagraph (1)(c), and 41-7-193, Mississippi Code 1972, Annotated, as amended, and duly adopted rules, procedures, plans, criteria, and standards of Mississippi State 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 8, 2012.

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

A. State Health Plan (SHP)

The *FY 2012 State Health Plan* (“*Plan*”) contains criteria and standards which an applicant is required to meet prior to receiving CON authority for construction, renovation, expansion, capital improvements, replacement of health care facilities, and addition of hospital beds. This application is in substantial compliance with these applicable criteria and standards.

SHP Criterion 1 – Need

Projects which involve the addition of beds: The applicant shall document the need for the proposed project. Exception: Notwithstanding the service specific need requirements as stated in Need Criteria “1a”, the MSDH may approve additional beds for facilities which have maintained an occupancy rate of at least 80 percent for the most recent twelve-month licensure reporting period or at least 70 percent for the most recent two (2) years.

Singing River Hospital proposes to add eight CMR beds to its existing Level II CMR unit. According to Singing River Hospital, its existing 20-bed Level II CMR unit has maintained an occupancy rate above the required 80 percent occupancy rate for the most recent twelve-month licensure reporting period. Additionally, the hospital has maintained at least 70 percent of occupancy for the most recent two consecutive years. According to the data reported by the MSDH, Licensure and Certification, SRH’s CMR utilization rates for FY 2009 and FY 2010 were reported as follows: 73.29 percent and 85.77 percent occupancy, respectively. For FY 2011, the applicant provided utilization documentation from October 2010 to September 2011 which indicates an ADC of 17.4, which is an occupancy rate of 87 percent. The applicant reports that Singing River Hospital’s current CMR occupancy rate is reflective of the facility’s consistent high utilization of its Level II CMR services.

The *Plan* documents that the state as a whole has a need for 86 additional Level II CMR beds/services.

**Comprehensive Medical Rehabilitation Bed Need
 For 2011**

Level	Estimated Population 2011	Approved CMR Beds	CMR Beds Needed	Difference
Level I	3,090,895	246	247	1
Level II	3,090,895	107	193	86

Source: Application for renewal of hospital license for Fiscal year 2010; Mississippi Population Projections 2015, 2020, and 2025, Center for Policy Research and Planning, Mississippi Institutions of Higher Learning, September 2008.

The applicant is in compliance with this criterion for the addition of comprehensive medical rehabilitation beds/services.

SHP Criterion 2 – Treatment Limitation

Singing River Hospital affirms that it will refrain from providing treatment services for the following rehabilitation diagnostic categories: (1) spinal cord injury, (2) congenital deformity, and (3) brain injury. The applicant states that SRH currently operates as a Level II CMR unit and has consistently complied with this criterion.

SHP Criterion 3 – Staffing and Services

The applicant asserts that a physician currently serves as the Medical Director of SRH's CMR unit, and will continue to serve in that capacity upon approval of the proposed project. According to the applicant, the physician has more than two years of training or experience in the medical management of inpatients requiring rehabilitation services. Additionally, the doctor also provides services to the unit and its inpatients more than twenty hours per week.

The applicant contends that the CMR unit is staffed by a variety of qualified clinical personnel, including physical therapists, occupational therapists, speech and language therapists, rehabilitation nurses, and social workers. SRH asserts that the aforementioned staff provides an integrated approach by tailoring each patient's program to meet his or her specific needs.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, September 1, 2011, 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*

The *State Health Plan* also requires that an applicant document that the facility has maintained an occupancy rate of at least 80 percent for the most recent twelve-month licensure reporting period or at least 70 percent for the most recent two years. SRH's occupancy rates have been more than the required level for the addition of CMR beds.

The application submitted by Singing River Health System for the addition of eight CMR beds is consistent with the *FY2012 State Health Plan*.

GR Criterion 2 - Long Range Plan

The applicant states that the mission of Singing River Health System is to improve the quality of life in the community by delivering world-class health care and wellness services. The applicant further states that its vision is to be a world-class health system, performing among the nation's best in the areas of clinical quality, patient satisfaction, employee and physician relations, community service and stewardship. The applicant documents that this proposal is not only consistent with Singing River Health System's mission and vision, but also is an essential component to accomplishing the previously stated goals.

The applicant documents that prior to submitting this application, Singing River Health System's management team reviewed and assessed the consistently high utilization of the Hospital's 20-bed Level II CMR unit. In order to meet the hospital's current and future patient demands, the management staff determined that the proposed project is vital. Therefore, the management staff determined that expanding the bed capacity by eight beds could be accomplished at a modest cost, through the proposed arrangement.

GR Criterion 3 – Availability of Alternatives

The applicant states that this project, as proposed, is the most efficient and cost effective method to meet the needs of patients seeking comprehensive medical rehabilitation services at Singing River Hospital. The applicant contends that it is able to add these eight CMR beds at a nominal cost by refurbishing existing space on the fourth floor of the hospital. SRH considers this as the best alternative than implementing the beds through new construction.

The applicant asserts that the project, as planned, fosters improvements in the delivery of health care services and cost effectiveness by renovating existing hospital space to provide for the additional CMR beds needed in the service area. Additionally, the applicant believes that by expanding its Level II CMR services, SRH will be able to provide more patients with the clinical benefits of its integrated approach to CMR services.

GR Criterion 4 - Economic Viability

Singing River Health System submits that its proposed financial projections for the entire facility will yield a net income of \$2,290,962 for the first year, \$3,030,696 for the second year, and \$2,919,659 for the third year upon completion of the project for the entire hospital (See Attachment 1).

The *Report on Hospitals* list SRH's average daily census for FY 2009 and FY 2010 as 14.7 and 17.2, respectively, and its occupancy rate as 73 percent and 86 percent, respectively for the facility's 20-bed CMR unit. Additionally, after completion of the project, the applicant project utilization for the first year to be 36.1 percent occupancy and 98.8 percent occupancy for the second and third year.

GR Criterion 5 - Need for the Project

- a. **Access by Population Served:** The applicant affirms that the services offered at Singing River Hospital are available to all residents of the service area, including low income persons, racial and ethnic minorities, women, handicapped persons, the elderly, and other underserved groups.
- b. **Relocation of Services:** This application does not propose the relocation of any services.
- c. **Current and Projected Utilization of Like Facilities in the Area:** According to the FY 2012 *State Health Plan* there are only two CMR facilities in the applicant's defined service area, Memorial Hospital at Gulfport and Forrest General Hospital, which are Level I units. The applicant documents that Singing River Health System has consulted with both of the existing providers, and neither opposes the proposed project. The applicant does not anticipate that the proposed project will have an adverse impact on any existing providers. There are six Level II CMR facilities in the state, including Singing River Hospital. The two closest Level II CMR facilities are Natchez Regional Medical Center (NRMC) and Riley Memorial Hospital (Riley). Natchez Regional Medical Center (NRMC) is approximately 250.07 miles and Riley is 151.46 miles away from SRH.
- d. **Probable Effect on Existing Facilities in the Area:** The project proposes to add 8 CMR beds to SRH for a total of 28 CMR beds. The applicant indicates that based upon the consistently high occupancy rate of its 20-bed Level II CMR unit, there will not be an adverse affect on existing facilities.

The proposed project will not have an adverse impact on the existing facilities.
- e. **Community Reaction:** The application contains four letters of support for the project from three physicians and an elected official. The endorsement letters express how the proposed project will enhance and ensure the quality of care that Singing River Health System provides for the citizens of Jackson County.

No letters of opposition were submitted to the Department regarding the proposed project.

GR Criterion 6 - Access to the Facility or Service

- a. **Medically Underserved Population:** Singing River Hospital submits that the medically underserved patients of the health planning, hospital, and patient service area currently have and will continue to have access to the services at the hospital.

The applicant provided the following dollar amount and percentage of care to medically indigent and charity care patients for the last two years.

Fiscal Year	Dollar Amount	Percent of Gross Revenue
2010	\$45,655,000	3.4%
2009	\$41,621,000	3.5%

Singing River Hospital projects indigent/charity care to continue at approximately 3.4 percent of gross revenue.

- b. Performance in Meeting Federal Obligations:** The applicant submits that SRH has no obligations under any federal regulations requiring uncompensated care, community service, or access by minority/handicapped persons.
- c. Unmet Needs to be Served by Applicant:** SRH states that Medicare, Medicaid, and medically indigent patients of the service area currently have and will continue to have access to the CMR unit at the hospital. The applicant believes that the expansion of its CMR unit will enhance access to care for medically underserved patients.
- d.** The applicant submits that the hospital is accessible to the public by U.S Highway 90, and Interstate 10. The application contains a copy of the hospital's admissions policies and it lists the hospital's policies statement relating to its purpose. Due to Singing River Health System's tax exempt status, its public ownership, and its ongoing community service obligations, it will continue to render care to the economically indigent and the medically indigent patients.

The applicant submits that the Level II CMR beds and emergency services will operate 7 per day week and 24 hours per day.

GR Criterion 7 - Information Requirement

The applicant confirmed 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

Currently, Singing River Hospital is the only Level II CMR provider in South Mississippi. Memorial Hospital at Gulfport and Forrest General Hospital in Hattiesburg are Level I CMR facilities in the applicant's defined service area. However, the applicant submits that the Level I CMR facilities providers services to

distinct populations. For this reason, combined with the hospital's existing referral patterns, Singing River Hospital does not anticipate an adverse impact on existing providers.

The applicant believes that this project once completed will enhance the health care system by providing health care resources needed by the community. The proposal will complement Singing River Hospital's Level II CMR unit and its ability to operate as a Level II Trauma Center. Furthermore, it will enable the Hospital to provide a continuum of care within the service area without an adverse impact. The applicant asserts that if this project is not implemented, the result will have an adverse impact on the patients seeking rehabilitative services at the hospital. Additionally, the applicant states that there are no transfer, referral or affiliation agreements directly related to this project.

GR Criterion 9 - Availability of Resources

The applicant states that there are no clinically related contractual services directly associated with this project, and that the hospital will recruit needed personnel, if any, from its existing recruiting arrangements. The applicant asserts that SRH has established a satisfactory staffing history, as evidenced by its accreditation by The Joint Commission.

GR Criterion 10 – Relationship to Ancillary or Support Services

The applicant states that any additional support or ancillary services needed as a result of the proposed project are available at SRH through existing staff and resources. Furthermore, 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

The applicant asserts that SRH participates in and will continue to provide clinical training programs for health professionals.

GR Criterion 12 – Access by Health Professional Schools

SRH asserts that the hospital has a track record of providing high quality health care services to the patients it serves.

GR Criterion 14 - Construction Projects

- a. **Cost Estimate:** The application contains a cost estimate prepared by HARDY and Associates/Architect, PLLC. The architect estimated a proposed capital expenditure of \$690,000.

- b. **Schematic Drawing:** The application contains a schematic drawing of SRH's fourth floor 28-bed CMR unit.
- c. **Space Allocations:** The applicant submits that space will conform to applicable local and state or minimum licensing standards.
- d. **New Construction Projects:** This project involves renovation of approximately 4,176 square feet of space.
- e. **Cost per Square Foot:** The project will cost \$157.09 per square foot to renovate the 4,176 square feet of space (see Attachment 2). The *Means Construction Cost Data, 2012*, does not compare costs of renovation projects.

GR Criterion 16 - Quality of Care

The applicant states that SRH has a track record of providing high quality health care services to its patients and is evidenced by its accreditation by the Joint Commission on Accreditation of Health Care Organizations. Furthermore, the applicant believes that the addition of the four CMR beds as contemplated by this proposal will significantly improve the quality of care and delivery of services at the hospital.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

The total estimated capital expenditure is allocated as follows:

	Item	Cost	Percent of Total
a.	Construction Cost -- New	0	0
b.	Construction Cost -- Renovation	\$578,000	84%
c.	Capital Improvements	0	0
d.	Total Fixed Equipment Cost	30,000	4%
e.	Total Non-Fixed Equipment Cost	34,000	5%
f.	Land Cost	0	0
g.	Site Preparation Cost	0	0
h.	Fees (Architectural, Consultant, etc.)	48,000	7%
i.	Contingency Reserve		
j.	Capitalized Interest	0	0
k.	Other		
	Total Proposed Capital Expenditure	\$690,000	100%

As previously stated, the hospital has the capacity to add 8 CMR beds to its existing 20- bed CMR unit on the hospital's fourth floor by renovating approximately 4,176 square feet of space at a nominal cost. Currently, the space is being occupied by the gymnasium and administrative offices which will be relocated to the first floor of the hospital. The applicant submits that no new construction is involved to accommodate the relocation or the addition of the eight CMR beds. Additionally, SRH submits that the renovation will cost \$149.90 per square foot; however, staff contends it will cost \$157.09 per square foot (see Attachment 2). The *Means Construction Cost Data, 2012*, does not compare costs of renovation projects.

B. Method of Financing

The applicant proposes to finance the proposed \$690,000 capital expenditure from its accumulated cash reserves. The application contains an independent auditor's report of Singing River Health System financial performance for 2008, 2009, and 2010. The report documents the applicant's ability to undertake the proposed project for the additional of 8 CMR beds/services.

C. Effect on Operating Cost

The applicant projects gross revenue of \$32,656,573, \$41,512,363, and \$42,569,481, the first, second, and third year of operation, respectively; and expenses of \$6,862,313, \$8,410,897, and \$8,489,030. Additionally, SRH indicates the first, second, and third year of operation will yield a net profit of \$2,290,962, \$3,030,696, and \$2,919,656, respectively. Singing River Health System's utilization, cost, and charges are listed in its Three-Year Projected Operating Statement (see Attachment 1).

D. Cost to Medicaid/Medicare

Based on the applicant's projections, the cost to third party payors the first year of operation is as follows:

Patient Mix by Type Payer	Utilization Percentage	First Year Revenue
Medicaid	3%	\$ 973,517
Medicare	85%	27,567,118
Commercial Insurance	11%	3,663,222
Self Pay	1%	452,715
Charity Care	0%	-
Other	0%	-
Total	100%	\$32,656,573

SRH projects approximately 3.4% of gross patient revenues for bad debt patients.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid estimates that approval of this application will increase annual cost to Medicaid by \$32,402 for inpatient hospital services based on the current payment rate and the reported 70% Medicaid utilization rate. Additional amounts billed for hospital outpatient services will be paid as outlined in the Medicaid State Plan. The Division of Medicaid opposes this project.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the criteria and standards for the establishment, offering, or expansion of comprehensive medical rehabilitation beds and/or services, as contained in the *FY 2012 State Health Plan*; the *Mississippi Certificate of Need Review Manual, Revised September 1, 2011*; and duly 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 Singing River Health System d/b/a Singing River Hospital for the addition of eight Level II Comprehensive Medical Rehabilitation Beds.

Attachment 1

Singing River Hospital Three-Year Operating Statement (With Project)			
	Year 1	Year 2	Year 3
Revenue			
Patient Revenue:			
Inpatient	\$ 32,656,573	\$ 41,512,363	\$ 42,569,481
Outpatient			
Total Gross Patient Revenue	<u>\$ 32,656,573</u>	<u>\$ 41,512,363</u>	<u>\$ 42,569,481</u>
Charity Care	\$ 0	\$ 0	\$ 0
Deductions from Revenue	23,503,298	30,070,770	31,160,792
Net Patient Care Revenue	<u>\$ 9,153,275</u>	<u>\$ 11,441,593</u>	<u>\$ 11,408,689</u>
Other Operating Revenue	\$	\$	\$
Total Operating Revenue	<u>\$ 9,153,275</u>	<u>\$ 11,441,593</u>	<u>\$ 11,408,689</u>
Expenses			
Operating Expenses:			
Salaries	\$ 1,978,502	\$ 2,341,636	\$ 2,362,864
Benefits	416,656	493,137	497,608
Supplies	1,936,141	2,420,216	2,443,103
Services	2,499,574	3,124,468	3,154,015
Lease	0	0	0
Depreciation	31,440	31,440	31,440
Interest	0	0	0
Other	0	0	0
Total Expenses	<u>\$ 6,862,313</u>	<u>\$ 8,410,897</u>	<u>\$ 8,489,030</u>
Net Income (Loss)	<u>\$ 2,290,962</u>	<u>\$ 3,030,696</u>	<u>\$ 2,919,659</u>
Assumptions			
Inpatient Days	7,320	9,150	9,150
Outpatient Visits	0	0	0
Procedures	0	0	0
Charge per outpatient day	0	0	0
Charge per inpatient day	\$ 4,461	\$ 4,537	\$ 4,652
Charge per procedure	0	0	0
Cost per inpatient day	\$ 937	\$ 919	\$ 928
Cost per outpatient day	0	0	0
Cost per procedure	0	0	0

**Singing River Hospital
 Attachment 2
 Computation of Renovation Cost***

	Cost Component	Total	Renovation
A	New Construction Cost	\$0	
B	Renovation Cost	\$578,000	\$578,000
C	Total Fixed Equipment Cost	\$30,000	\$30,000
	Total Non-Fixed Equipment Cost	\$34,000	
	Capital Improvement	\$0	\$0
	Land Cost	\$0	
D	Site Preparation Cost	\$0	
E	<i>Fees (Architectural, Consultant, etc.)</i>	\$48,000	\$48,000
F	<i>Contingency Reserve</i>	\$0	\$0
G	<i>Capitalized Interest</i>	\$0	\$0
	<i>Other</i>	\$0	
	Total Proposed Capital Expenditure	\$690,000	\$656,000
	Square Footage	4,176	4,176
	<i>Allocation Percent</i>		100.00%
	Costs Less Land, Non-Fixed Eqt., & Capital Improvement	\$656,000	\$656,000
	Cost Per Square Foot	\$157.09	\$157.09

*Source: Mississippi Certificate of Need Review Manual, Revised September 1, 2011.