

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
FEBRUARY 2015**

**CON REVIEW HG-R-0914-012
GEORGE COUNTY HOSPITAL
HOSPITAL RENOVATION AND EXPANSION
CAPITAL EXPENDITURE: \$12,584,553
LOCATION: LUCEDALE, GEORGE COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

George County Hospital is a community hospital, governed by a seven-member Board of Trustees appointed by the Board of Supervisors of George County, Mississippi. The facility consists of 49 licensed beds and is certified to participate in the Medicare and Medicaid programs.

The occupancy rates, average lengths of stay (ALOS), and the Medicaid utilization rates for George County Hospital are as follows:

**George County Hospital
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2011	30.41	3.50	11.24
2012	29.49	3.65	27.00
2013	28.53	3.53	25.48

Source: Division of Health Facilities Licensure and Certification, MSDH.

B. Project Description

George County Hospital requests Certificate of Need (CON) authority to undergo an extensive renovation and expansion project. The project will allow George County Hospital to do the following:

- Construct a new Imaging Department, a new Emergency Department and Dietary area;
- Construct Medical office space and support services for a two-story expansion;

- Expand and renovate its laboratory;
- Relocate the Cardiopulmonary Department and Pharmacy; and
- Construct a new helipad, loading dock and parking lot.

The proposal involves construction of approximately 51,000 square feet for a new two-story expansion, and 7,500 square feet of renovated space located within the existing hospital. The applicant states that the Imaging and Emergency Departments are in need of redesign for operational efficiencies and to meet the patient care standards in today's health care environment.

The applicant's final objectives for the project are to promote quality and continuity of care and to offer state-of-the-art facilities and services to its patients. The project will provide modern imaging and emergency services, improve efficiencies of the departments and the hospital as a whole, correct facility space and design deficiencies in these areas, and enhance patient experience at the hospital.

The applicant does not expect the project to require additional staffing.

The total proposed capital expenditure is \$12,584,553, at an estimated cost of \$228.90 per square foot for new construction and \$120.46 per square foot for renovated space. (See Expenditure Summary for complete percentage breakdown of project). The applicant projects that the capital expenditure will be obligated immediately after approval of the CON and the project is expected to be complete by December 2016.

The applicant indicates the proposed capital expenditure will be funded with a General Obligation Hospital Construction and Refunding Bond, Series 2014 issued by the Mississippi Development Bank. The application contains a resolution adopted by the Board of Supervisors of George County for the issuance of Bonds.

The MSDH Division of Health Facilities Licensure and Certification approved the site for the project on January 14, 2015.

II. TYPE OF REVIEW REQUIRED

This project is reviewed in accordance with Section 41-7-173, 41-7-191 1(j), and 41-7-193 of the Mississippi Code of 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 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 12, 2015.

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

A. State Health Plan (SHP)

The *FY2014 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 substantial compliance with the applicable criteria and standards stated in the *Plan as follows*:

SHP Criterion 1 - Need

Projects which do not involve the addition of acute care beds.

In projects that do not involve the addition of acute care beds, the applicant shall document the need for the proposed project. In addition, projects that involve construction, renovation, or expansion of emergency department facilities shall include a statement indicating whether the hospital will participate in the statewide trauma system and describe the level of participation, if any. The applicant documents that George County Hospital participates in the statewide trauma system as a Level IV facility.

The project involves approximately 51,000 square feet of new construction for a two-story expansion and 7,500 square feet of renovated space to be located within the existing hospital. According to the applicant, the Imaging and Emergency Departments are in need of redesign for operational efficiencies and to meet the patient care standards in today's health care environment. The applicant discussed the need in the following areas:

- Imaging Services. The applicant states that currently the Imaging Department on the First Floor does not have ample space appropriately configured for efficiency of operations. The space in the existing Imaging Department is undersized to appropriately accommodate patients in support services such as the waiting and dressing areas. Appropriate waiting space and dressing rooms will be included in the new Imaging Department for patient convenience and privacy. The new construction included in this CON proposal for the Imaging Department will accommodate current patient needs with regard to access, function, size, and operational efficiencies.
- Emergency Department. The new Emergency Department will reconfigure the space for enhanced patient access and operational efficiencies. The applicant states that the design chosen for the Emergency Department was selected as the most operationally efficient and cost effective approach for the new construction at the hospital. The new Emergency Department will include two (2) exam rooms; five (5) treatment rooms; one (1) triage room;

two (2) cardiac treatment rooms; two (2) patient observation rooms; and one (1) trauma room. The purpose of designation of the fast track areas within the Emergency Department is to offer exam and treatment rooms for the purpose of treating patients with minor injuries and ailments separate from the patients with traumatic and/or severe injuries. The proposed construction/expansion will allow for better space planning and patient flow through the Department to accommodate patients seeking emergency services at the hospital.

- Front Entrance and Waiting Room Space. A new entrance to the facility will accommodate and direct patients to the appropriate area of the hospital to seek services. Accommodations that enhance the patient's experience at the hospital are needed for all services, including inpatient, outpatient and emergency services, particularly with regard to access, patient flow and operational efficiencies to be gained from appropriate space and function planning. Additional waiting area is required for patients' access and convenience.
- Second Floor Expansion. The second Floor would house medical office space for both local physicians and visiting specialists. Administration will also be located in this space.
- Loading Dock; Helipad and Additional Parking Lot. As a result of the construction/expansion project, the hospital will be required to construct a new loading dock, helipad and additional parking spaces.
- Relocation of Cardiopulmonary Department; Pharmacy and Expansion of the Laboratory. The applicant submits that currently Cardiopulmonary services are offered in three separate areas of the hospital which adversely impacts the operational efficiencies of the department. Offering these services in separate areas, each with its own registration area, can translate to disjointed service delivery and coordination. The applicant believes that consolidating this department to one location is necessary to achieve operational and patient service efficiencies.

In addition, the applicant states that the hospital pharmacy has outgrown its space and currently utilizes extra patient rooms to accommodate its needs. The Laboratory is also in need of additional space and redesign to meet current standards of operation for the hospital laboratories. The applicant proposes to relocate the Cardiopulmonary Department and Pharmacy to the newly renovated space previously occupied by the Emergency Department. Likewise, the Laboratory will expand into the newly renovated space previously occupied by the Imaging Department.

SHP Criterion 5 – Charity/Indigent Care

The applicant states that as a community, non-profit hospital, George County Hospital currently provides and will continue to provide a substantial amount of indigent/charity care.

SHP Criterion 6 – Reasonableness of Cost

The applicant submits that the projected renovation and new construction costs fall within the range of previously approved projects by the MSDH and the projected non-fixed equipment costs are reasonable when compared with the equipment costs of other hospital renovation and expansion projects approved by the MSDH.

SHP Criterion 7 – Floor Area and Space Requirements

The gross square footage of the proposed project is 58,512 square feet consisting of 51,052 square feet of new construction and 7,460 square feet of renovation. The applicant states that the proposed project compares favorably with state and national norms for similar projects.

SHP Criterion 8 – Renovation vs Replacement

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

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, Revised September 1, 2011*; addresses general criteria by which all CON applications are reviewed. This application is in substantial compliance with general review criteria contained in the manual.

GR Criterion 1- Consistency with the *State Health Plan*

The project is in substantial compliance with all criteria, standards, and policies of the *FY 2014 Mississippi State Health Plan* applicable to the construction, renovation, and expansion projects.

GR Criterion 2 – Long Range Plan

The applicant states that the long range goal of the hospital to provide high quality facilities and services to patients seeking health care services at George County Hospital is consistent with this CON proposal. The applicant further states that once completed, this project will significantly enhance the patient care provided at the hospital.

GR Criterion 3 – Availability of Alternatives

The only other option available was to not expand or renovate space for the purpose of improving the acute care patient rooms, imaging and emergency departments of the hospital. However, the applicant states if this alternative was 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 states the project, as proposed, is the most efficient and cost effective method to meet the needs of patients seeking services at George County Hospital.

GR Criterion 4 - Economic Viability

The applicant asserts that the charges and profit-loss projections are reasonable and consistent with the experience of comparable facilities. In addition, the applicant states that projected levels of utilization are also consistent with experience of comparable facilities in the service areas and the state.

The application contained a letter from the hospital's chief financial officer attesting to the financial feasibility of the project.

GR Criterion 5 - Need for the Project

- a. **Access by Population Served:** The applicant states that the services offered at George County 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 and will continue to be available to all residents of the service area.
- b. **Relocation of Services:** The project does not propose the relocation of services outside the existing facility. However, the space vacated by the Emergency Department will accommodate the Cardiopulmonary Department and the Pharmacy. The space vacated by the Imaging Department will accommodate an expansion of the Laboratory into that space. The existing Laboratory is located adjacent to the Imaging Department.
- c. **Community Reaction:** The application contains 19 letters of support from the George County Regional Health System, the Community Surgical Center, City of Lucedale, Singing River Electric Power Association, George County Chancery Clerk, the Board of Supervisors, and local banks.

GR Criterion 6 - Access to the Facility or Service

George County Hospital submits that all residents of the service area currently have and will continue to have access to the services of the hospital.

GR Criterion 7 - Information Requirement

George County Hospital 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

The applicant asserts that once completed the project will enhance the health care system by providing health care resources and improved health facilities needed by the community. The project is not expected to have an adverse effect on other health care providers in the area.

The Department received no letters of opposition concerning the proposed project.

GR Criterion 9 - Availability of Resources

The hospital expects to recruit any needed personnel from its present recruiting efforts and affiliation arrangements.

GR Criterion 10 – Relationship to Ancillary or Support Services

The applicant states that any additional ancillary or support services needed as a result of the 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 project.

GR Criterion 14 - Construction Projects

- a. **Cost Estimate:** The application contains a cost estimate prepared by a professional corporation, licensed to do business in Mississippi.
- 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:** This project involves 51,000 square feet of new construction.
- e. **Cost per Square Foot:** The applicant estimates the cost of new construction to be \$228.90 per square foot. *RSMeans Building Construction Cost Data (RSMBCCD), 2014, Edition*, lists new construction costs for hospital construction ranging from \$202 (where 25% of projects cost less) to \$350 (where 25% of projects cost more) per square foot. The applicant

projects renovation will cost \$120.46 per square foot. The *RSMBCCD* does not compare costs of renovation projects.

GR Criterion 16 - Quality of Care

George County Hospital is in compliance with the *Minimum Standards for the Operation of Mississippi Hospitals*, according to the Division of Health Facilities Licensure and Certification, MSDH. The facility is certified for participation in the Medicare and Medicaid programs.

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	\$8,546,085	67.90
b.	Construction Cost -- Renovation	673,640	5.11
c.	Capital Improvements	0	32.81
d.	Total Fixed Equipment Cost	0	0
e.	Total Non-Fixed Equipment Cost	600,000	4.76
f.	Land Cost	0	0
g.	Site Preparation Cost	1,000,000	7.94
h.	Fees (Architectural, Consultant, etc.)	643,842	5.11
i.	Contingency Reserve	510,986	4.06
j.	Capitalized Interest	610,000	4.84
j.	Legal and accounting fees	0	.0
k.	Other	0	0
	Total Proposed Capital Expenditure	\$12,584,553	100.00

The proposed project involves 51,052 square feet of new space. Staff calculated cost of new construction to be \$217.15 per square foot (see Attachment 2). The costs for projects listed in *The RSMeans Building Construction Cost Data, 2014 Edition*, ranged from \$202 to \$350 per square foot, with a median cost of \$253 per square foot. The project will also require 7,460 square feet of renovated space at approximately \$120 per square foot.

B. Method of Financing

The applicant proposes to finance the proposed capital expenditure with a bond issue to be repaid over a period of 20 years at 3.75% interest.

C. Effect on Operating Cost

The Hospital's three-year projected operating statement is presented at Attachment 1.

D. Cost to Medicaid/Medicare

The applicant projects the cost to third party payors as follows:

Payor Mix	Utilization Percentage (%)	First Year Revenue (\$)
Medicare	32	\$ 21,595,866
Medicaid	18	12,394,335
Commercial	21	14,522,669
Self Pay	10	0
Charity Care	0	<u>0</u>
Other	<u>19</u>	<u>12,687,998</u>
Total	100	\$ 67,990,116

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for review and comment. Effective September 1, 2012, the Division of Medicaid changed the methodology by which outpatient services are reimbursed so that the cost incurred subsequent to that date will no longer affect outpatient payments. Also, effective October 1, 2012, the Division changed the methodology by which it reimburses inpatient services so that the cost incurred subsequent to that date will only affect cost outlier payments. The Division of Medicaid opposes this project.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the criteria and standards for construction, renovation, expansion, or capital improvements involving a capital expenditure in excess of \$2,000,000 contained in the *FY 2014 Mississippi State Health Plan*; the *Mississippi Certificate of Need Review Manual, 2011 Revision*; 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 the application submitted by George County Hospital for the renovation and expansion of the hospital.

Attachment 1

**George County Hospital
Three-Year Operating Statement (with Project)**

	Year 1	Year 2	Year 3
Revenue			
Patient Revenue:			
Inpatient	\$ 22,720,378	\$ 23,401,990	\$ 25,963,598
Outpatient	45,269,738	46,627,829	50,380,486
Gross Patient Revenue	\$ 67,990,116	\$ 70,029,819	\$ 76,344,084
Charity Care	5,015,245	5,165,702	5,475,645
Deductions from Revenue	20,777,620	21,526,532	22,978,284
Net Patient Revenue	\$ 42,197,251	\$ 43,337,585	\$ 47,890,155
Other Operating Revenue	4,231,856	4,358,811	4,489,576
Total Operating Revenue	\$ 46,429,107	\$ 47,696,396	\$ 52,379,731
Expenses			
Operating Expenses:			
Salaries	\$ 23,808,046	\$ 24,522,287	\$ 26,484,070
Benefits	3,250,956	3,348,485	3,616,363
Supplies	4,197,472	4,323,396	4,669,268
Services	4,582,596	4,720,073	5,097,679
Lease	1,573,436	1,620,639	1,750,290
Depreciation	1,378,057	1,419,398	1,532,950
Interest	102,511	105,586	114,033
Other	5,856,403	6,032,095	6,514,663
Total Expenses	\$ 44,749,475	\$ 46,091,959	\$ 49,779,316
Net Income (Loss)	\$ 1,679,632	\$ 1,604,437	\$ 2,600,415
Assumptions			
Inpatient days*	6,788	6,991	7,201
Outpatient days*	51,432	52,975	54,564
Procedures	2,009	2,069	2,131
Charge/outpatient day	\$ 880	880	923
Charge per inpatient day	\$ 3,347	3,347	3,606
Charge per procedure	\$ 33,851	33,851	35,829
Cost per inpatient day	\$ 6,593	\$ 6,593	\$ 6,593
Cost per outpatient day	\$ 870	\$ 870	\$ 912
Cost per procedure	\$ 22,280	\$ 22,280	\$ 23,362

*Figures may be off by \$1 due to rounding.

Attachment 2

**George County Hospital
 Hospital Renovation and Expansion
 Computation of Construction and Renovation Cost**

Cost Component	Total	New Construction	Renovation
New Construction Cost	\$8,546,085	\$8,546,085	
Renovation Cost	\$673,640		\$673,640
Total Fixed Equipment Cost	\$0	\$0	\$0
Total Non-Fixed Equipment Cost	\$600,000		
Land Cost	\$0	\$0	
Site Preparation Cost	\$1,000,000	\$1,000,000	
<i>Fees (Architectural, Consultant, etc.)</i>	\$643,842	\$561,755	\$82,087
<i>Contingency Reserve</i>	\$510,986	\$445,838	\$65,148
<i>Capitalized Interest</i>	\$610,000	\$532,228	\$77,772
<i>Other</i>	\$0	\$0	
Total Proposed Capital Expenditure	\$12,584,553	\$11,085,906	\$898,647
Square Footage	58,512	51,052	7,460
<i>Allocation Percent</i>		87.25%	12.75%
Costs Less Land, Non-Fixed Eqt., Other	\$11,984,553	\$11,085,906	\$898,647
Cost Per Square Foot	\$204.82	\$217.15	\$120.46

Source: Mississippi Certificate of Need Review Manual, Revised 2011 and FY 2015 MSHP.