

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

**CON REVIEW: HG-R-0306-006
FORREST GENERAL HOSPITAL
PATIENT TOWER RENOVATION
CAPITAL EXPENDITURE: \$4,589,204
LOCATION: HATTIESBURG, FORREST COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Forrest General Hospital (FGH) is a 512-bed general acute-care, not-for-profit, tax exempt institution, owned by Forrest County, Mississippi. The hospital is governed by a seven-member Board of Trustees, 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 (%)
2003	61.24	4.59	29.16
2004	61.97	4.61	25.17
2005	62.74	4.83	22.23

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 renovate the third and fourth floors of the existing patient tower. The project will include a complete renovation of the patient rooms, support space and electrical/mechanical systems. The project also entails installation of patient

headwalls, showers, commodes, vanities, floor and wall coverings, patient room doors, electrical wiring, heating and air conditioning systems and a new nurse call system. The space to be renovated is 37,900 square feet of space.

The applicant projects that no additional staff will be required as a result of this project; however, the hospital will hire 16 additional full-time equivalent personnel. In addition, the applicant states that there will be no increase or decrease in the use of , costs or charges of ancillary or support services as a result of this project.

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

The applicant expects that the capital expenditure will be obligated within 30 days of the approval of the CON, with completion in approximately 3 years thereafter.

II. TYPE OF REVIEW REQUIRED

This project is reviewed in accordance with Section 41-7-191, subparagraph (1)(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 June 5, 2006.

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

A. State Health Plan (SHP)

The *FY2006 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

Forrest General Hospital submits that the patient tower was completed in two phases – Phase 1 (floors 2, 3, and 4) in 1976 and Phase 2 (floors 5 through 9) in 1996. During this 30-year period, the applicant submits that cosmetic renovations have been made, but the electrical, mechanical, and plumbing fixtures have not been upgraded in 30 years. The project proposes technology enhancements such

as new headwalls, more efficient lighting systems, more efficient HVAC systems, and a new nurse call system. The application contains a Resolution by the Board of Trustees of

Forrest County General Hospital, which states that the hospital had water damage in certain areas that was existing but aggravated from the weather of Hurricane Katrina. The Board found that the following benefits will be gained by the project:

- The availability of comprehensive health services at the hospital and for its patients will be better assured;
- The consistency and quality of health services at the hospital and for the patients will be enhanced;
- The continuous goal of providing the best standard of care at the hospital and for its patients will be accomplished; and
- The continued efficient furnishing of quality services with the patient's safety in mind, at a reasonable cost will be implemented.

SHP Criterion 2 – Bed Service Transfer/Reallocation/Relocation

This project does not involve the transfer/reallocation or relocation of beds.

SHP Criterion 3 – Uncompensated 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

- a. **Cost per Square Foot:** The applicant proposes to renovate 37,900 square feet of space at a cost of \$121 per square foot, based on the MDH formula.
- b. **Equipment Cost:** The applicant further 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.

SHP Criterion 5 – Floor Area and Space Requirements

- a. **Gross Square Footage:** The applicant states that the patient tower consists of 37,900 square feet of space.
- b. **Architectural Restraints:** No architectural restraints on the existing facility were noted in the application.
- c. **Special considerations:** No special considerations were stated in the application.

SHP Criterion 6 – Renovation versus Replacement

According to the applicant, this project is for renovation of an existing patient tower which cost does not exceed 85 percent of the cost of a replacement facility.

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 the applicant, the project substantially complies 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 submits that it considered just doing cosmetic upgrades to the patient rooms; however, this was rejected because the current rooms are in need of new showers, patient sinks, headwalls, and HVAC systems.

GR Criterion 4 - Economic Viability

Based on the three-year projected operating statement, the applicant will have net income of \$8,529,884 the first year, and a loss of \$709,071 the second year and \$9,948,026 the third year of operation after initiation of the project.

The applicant states that the charges for acute care services are comparable to those charges established by other facilities within the service area and the state.

According to the applicant, the projected levels of utilization and need are consistent with similar facilities within the service area.

Forrest General Hospital submits that the project has been determined to be financially feasible by the hospital's management staff. The feasibility study performed by the hospital's chief financial officer is included in the application. The feasibility study notes that the project is simply upgrading departmental operations, which is an ongoing maintenance activity. Such items are absorbed in normal operations covered through cash flow generated by depreciation, which is a non-cash expense. In addition, new depreciation of \$187,281 is projected for the project.

GR Criterion 5 - Need for the Project

- a. **Access by Population Served:** 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.
- b. **Relocation of Services:** This application does not propose the relocation of services.
- c. **Current and Projected Utilization of Like Facilities in the Area:** No additional services are being proposed.
- d. **Probable Effect on Existing Facilities in the Area:** The project is for renovation of patient rooms within the facility. No adverse impact is anticipated on existing facilities in the area.
- e. **Community Reaction:** No adverse comments were received from the community.

GR Criterion 6 - Access to the Facility or Service

- a. **Medically Underserved Population:** Forrest General Hospital submits that it maintains no institutional barriers to medically underserved populations receiving medical care or other clinical services. The percentage of the underserved population receiving care at FGH reasonably reflects their relative percentage in the service area population, according to the applicant.
- b. **Performance in Meeting Federal Obligations:** The applicant submits that FGH complies with all applicable federal regulations regarding community service, access by underserved groups, access by handicapped persons, and the provision of uncompensated care.
- c. **Unmet Needs to be Served by Applicant:** Forrest General Hospital states that it serves Medicare, Medicaid, and medically indigent patients and will continue to provide health services to these groups.

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

The applicant does not expect that the renovation proposed in this application will have an effect on the current services provided in the existing healthcare system.

GR Criterion 9 - Availability of Resources

Forrest General Hospital submits that it currently maintains a full complement of professional and support staff for the provision of acute care services. Forrest General has documented that it has the health management and financial resources necessary to carry out the project.

GR Criterion 14 - Construction Projects

- a. **Cost Estimate:** The application contains a cost estimate prepared by Perkins Architecture PLLC.
- b. **Schematic Drawing:** The application contains a schematic drawing of the proposed renovated areas.
- c. **Space allocations:** The applicant submits that space will conform to applicable local and state licensing standards.
- d. **New Construction Projects:** This project is for renovation of existing space.

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

The total estimated capital expenditure is allocated as follows:

			Percent
a.	Construction Cost -- New	0	0
b.	Construction Cost -- Renovation	\$3,115,752	68
c.	Capital Improvements	0	0
d.	Total Fixed Equipment Cost	585,000	13
e.	Total Non-Fixed Equipment Cost	0	0
f.	Land Cost	0	0
g.	Site Preparation Cost	0	0
h.	Fees (Architectural, Consultant, etc.)	517,700	11
i.	Contingency Reserve	370,752	8
j.	Capitalized Interest	0	0
k.	Other Cost	0	0
l.	Total Proposed Capital Expenditure	<u>\$4,589,204</u>	<u>100</u>

The above capital expenditure is proposed for the renovation of approximately 37,900 square feet of patient rooms. The cost of renovation is \$121 per square foot (See Attachment 2), which is comparable to similar projects reviewed by the state. The *Means Construction Cost Data, 2006*, does not compare costs of renovation projects.

B. Method of Financing

The applicant proposes to finance this project with accumulated cash reserves. Financial statements contained in the application indicate that sufficient cash was on hand as of September 30, 2005, to support the project.

C. Effect on Operating Cost

Forrest General Hospital's three-year projected operating statement (entire facility with project) is presented at Attachment 1. The statement shows a first year net income of \$8,529,889, and losses of \$709,071 the second year and \$9,948,026 in the third year of operation.

C. Cost to Medicaid/Medicare

Based on the new depreciation cost projected by the applicant, the cost to third party payors is projected as follows:

Patient Mix by Type Payor	Utilization Percentage	First Year Expenses
Medicaid	15.4	\$ 28,841
Medicare	44.4	83,153
Other	40.2	75,287
Total	100.0	\$ 187,281

Forrest General Hospital projects 19.9 percent of gross patient revenue for bad debt patients and 11.8 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. However, no comments were received from the Division.

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 renovation of its patient tower.

Attachment 1

Forrest County General Hospital Three-Year Operating Statement			
	Year 1	Year 2	Year 3
Revenue			
Patient Revenue:			
Inpatient	\$457,382,703	\$496,906,099	\$536,429,495
Outpatient	<u>228,560,173</u>	<u>238,559,821</u>	<u>248,559,468</u>
Gross Patient Care Revenue	\$685,942,876	\$735,465,920	\$784,988,963
Deduction From Revenue			
Charity Care	\$ 37,096,929	\$42,069,925	\$47,042,921
Deductions from Revenue	<u>368,329,899</u>	<u>407,178,838</u>	<u>446,027,777</u>
Net Patient Care Revenue	\$280,516,048	\$286,217,157	\$291,918,265
Other Operating Revenue	<u>10,056,121</u>	<u>10,056,121</u>	<u>10,056,121</u>
Total Operating Revenue	290,572,169	296,273,278	301,974,386
Operating Expenses			
Salaries	117,182,628	121,632,929	126,083,230
Benefits	23,971,600	26,909,011	29,846,422
Supplies	65,918,392	71,499,132	77,079,872
Services	26,973,621	24,516,829	22,060,037
Lease	7,132,907	7,534,362	7,935,817
Depreciation	15,674,829	17,705,829	19,736,829
Interest	3,499,225	3,559,430	3,619,635
Other	21,689,083	23,624,827	25,560,571
Total Operating Expense	\$282,042,285	\$296,982,349	\$311,922,413
Net Operating Income	\$ 8,529,884	\$ (709,071)	\$ (9,948,027)
Assumptions			
Inpatient Days	127,660	126,141	124,622
Outpatient Days	14,454	16,666	18,878
Charge per outpatient day*	\$ 15,813	\$ 14,314	\$ 13,167
Charge per inpatient day	\$ 3,583	\$ 3,939	\$ 4,304
Cost per inpatient day	\$ 2,209	\$ 2,354	\$ 2,503
Cost per outpatient day*	\$ 19,513	\$ 17,820	\$ 16,523

*Costs and charges per outpatient day were taken from application, not verified by staff.

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Attachment 2

Computation of Renovation Cost

*Construction Cost Formula - Renovation

B. Construction Cost – Renovation	\$3,115,752
C. Total Fixed Equipment Cost	585,000
E. Fees (Architectural, Consultant, etc.)	517,700
F. Contingency Reserve	<u>370,752</u>
Total Proposed Capital Expenditure	<u>\$4,589,204</u> ÷ 37,900 = \$121

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