

**DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
FEBRUARY 2007**

CON REVIEW: HG-C-1206-039

ST. DOMINIC-JACKSON MEMORIAL HOSPITAL

CONSTRUCTION OF AN INFORMATION TECHNOLOGY OFFICE BUILDING

CAPITAL EXPENDITURE: \$4,385,648

LOCATION: JACKSON, HINDS COUNTY, MISSISSIPPI

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

St. Dominic-Jackson Memorial Hospital (St. Dominic) is a 535-bed short term, public, not-for-profit hospital. It is licensed to operate 417 medical/surgical beds, 35 adult chemical dependency beds and 83 adult psychiatric beds. St. Dominic is a not-for-profit Mississippi corporation. The hospital is governed by an 18-member Board of Directors. The hospital is accredited by the Joint Commission on the Accreditation of Healthcare Organizations and licensed by the Mississippi Department of Health (MDH).

The occupancy rates, average lengths of stay (ALOS), and the Medicaid utilization rates for St. Dominic are as follows for the years 2003 through 2005:

**St. Dominic-Jackson Memorial Hospital
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2003	65.24	5.21	9.95
2004	65.70	4.85	11.41
2005	58.80	4.47	12.70

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

B. Project Description

St. Dominic-Jackson Memorial Hospital is requesting Certificate of Need (CON) authority for construction of an information technology office building on the south campus of the hospital. The new office building construction will include two floors with approximately 18,045 square feet. St. Dominic intends to relocate and consolidate the appropriate information technology personnel to a new office building on the south campus of the existing hospital. The applicant asserts that currently, as technology services continue to grow, the need for appropriate staff is

growing also. The applicant submits that St. Dominic has outgrown the current information technology office location and has staff working from multiple locations throughout the hospital. The applicant believes this is very inefficient for operations and is using up valuable space for other hospital staff. The applicant believes that the project will provide enough office space to operate the current information technology staffing level with some growth for additional future staff.

According to the applicant, there will be no increase in current licensed capacity and no new services involved as a result of the proposed project.

According to the applicant, no new personnel will be required to staff the proposed project.

The total proposed capital expenditure of \$4,385,648 is composed of new construction (65.68 percent), fees (5.03 percent), contingency reserve (6.56 percent), other (9.03 percent), and non-fixed equipment (13.68 percent). See capital expenditure summary, page 7. The applicant proposes to finance this project with cash reserves.

According to MDH Division of Health Facilities Licensure and Certification, the site is acceptable for the intended use for the proposed project.

According to the applicant, the anticipated date for obligation of the proposed capital expenditure is May, 2007, with completion scheduled for April, 2008.

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 March 7, 2007.

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

A. State Health Plan (SHP)

The *FY2007 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

St. Dominic proposes to construct a new two story information technology office building on the South campus of the hospital. St. Dominic intends to relocate and consolidate the appropriate information technology personnel to the new office building. The applicant asserts that currently, as technology services continue to grow, the need for appropriate staff is growing also. As previously mentioned, the applicant believes that the project will be enough office space to accommodate the current information technology staff with some growth for additional future staff.

The applicant asserts that the hospital's objectives are to relocate and consolidate the appropriate information technology staff in an area that is not in the main hospital building and allow other crucial staff to be located closer to the clinical areas they work with daily. The proposed project will position staff more closely to the systems and the teams they work with daily. St. Dominic believes that efficiency will be gained for both staff groups.

SHP Criterion 3 – Uncompensated Care

St. Dominic asserts that it will continue to provide a reasonable amount of indigent/charity care, as described in the *Plan*. St. Dominic projects that 2.1 percent of its net revenue will be medically indigent care.

SHP Criterion 4 –Cost of Project

- a. **Cost per Square Foot:** The applicant states that the proposed project consists of 18,045 square feet of new construction. The cost per square foot of new construction is \$ 187.84 for the project. However, *Means Building Construction Cost Data, 2007 Edition*, does not compare costs of construction specifically for information technology office building.
- b. **Equipment Cost:** The applicant proposes to purchase non-fixed equipment at a cost of \$600,000.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, Revised November 12, 2006*, 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 project is consistent with the *FY 2007 State Health Plan*. According to the applicant, the proposed project will provide necessary infrastructure in today's healthcare environment to meet the priority health needs of disease prevention and

health protection, health promotion and the health needs of personal mental health, alcohol/drug abuse problems. St. Dominic believes that the project will assist the hospital in preventing unnecessary duplication of health resources, providing cost containment, increasing the accessibility, acceptability, continuity and quality of health services, resulting in the improvement of the overall health of Mississippi residents.

GR Criterion 2 - Long Range Plan

The applicant states that St. Dominic has a vision of providing high quality care through effective utilization of leading technologies, including information technologies such as computerized physician order entry. The new facility will allow for the consolidation of the information technology personnel to work more efficiently and provide the high level of support needed for this technology.

GR Criterion 3 – Availability of Alternatives

According to St. Dominic, the alternative would be to continue the current process of distributing the information technology staff randomly around the campus in any available space. The disadvantage is the inefficiency of this method and also the use of valuable space that could be allocated to hospital staff that need to be closer to patient care areas. There is no advantage to this method. Offsite office space was also considered. The disadvantage of this approach would be that the information technology staff would not be located near the data center where the technologies are located that must be supported. Also, they would not be near the users for efficient support.

The applicant believes that the proposed project best meets the needs of the hospital by consolidating the appropriate information technology personnel, keeping them close to the systems they manage, keeping them close to the users for effective support, and it frees up the valuable hospital space for other hospital staff to better utilize.

GR Criterion 4 - Economic Viability

Based on the applicant's three-year projections, this project will realize net losses of \$154,641 for the first three years of operation. However, annual depreciation costs would not significantly impact on the economic viability of the hospital.

- a. **Proposed Charge:** According to the applicant, there are no projected revenues and utilization associated with this project. There should be no impact on gross revenue and minimal impact on expenses per patient day or per procedure.
- b. **Projected Levels of Utilization:** As mentioned above, there are no projected revenues and utilization associated with this project.

- c. **Project's Financial Feasibility Study:** The application contained a letter signed by the hospital's certified public accountant attesting to the financial feasibility of the project.

GR Criterion 5 - Need for the Project

- a. **Access by Population Served:** The applicant asserts that there are no clinical services associated with this project.
- b. **Relocation of Services:** This application is for the construction of an information technology office building on the south side of the existing hospital campus.
- c. **Probable Effect on Existing Facilities in the Area:** The proposed project should have no effect on existing facilities in the area because no additional beds or services will be added.
- d. **Community Reaction:** The application contains eight letters of support for the project from physicians.

St. Dominic asserts that information technology is becoming increasingly more important to delivering the highest levels of quality and service. Building adequate facilities for the information technology staffs is essential to create the work environment to support these technologies.

GR Criterion 6 - Access to the Facility or Service

- a. **Medically Underserved Population:** According to St. Dominic, it will continue its practice of treating medically indigent patients who seek or present for service at St. Dominic.
- b. **Performance in Meeting Federal Obligations:** The applicant submits that St. Dominic 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:** St. Dominic is a Medicare and Medicaid provider. The applicant reports that in 2005, 1.8 percent, and in 2006 1.9 percent of its gross patient charges resulted in uncompensated care. The applicant further projects that 2.1 percent of its services will be utilized by medically indigent patients.

GR Criterion 7 - Information Requirement

St. Dominic affirmed 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

St. Dominic believes that delivery of healthcare in a more effective manner is improved by technology. Implementation of technology solutions is dependent on efficient use and placement of staff. The lack of appropriate working environments for information technology staff will lessen the efficiency and growth of information technology effectiveness.

St. Dominic does not anticipate that the approval of this application will have an adverse impact on other providers in GHSA 3.

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

Staff does not anticipate that this project will have an adverse impact on any of the existing hospitals in GHSA 3.

GR Criterion 9 - Availability of Resources

As previously mentioned, St. Dominic indicates that no new personnel will be required to staff the proposed project.

GR Criterion 10 – Relationship to Ancillary or Support Services

According to the applicant, the proposed project will have no impact on ancillary or support services at St. Dominic.

GR Criterion 14 - Construction Projects

- a. **Cost Estimate:** The application contains a cost estimate prepared by Barlow, Eddy, Jenkins, P.A.
- b. **Schematic Drawing:** The application contains a schematic drawing of the proposed construction project.
- c. **Space Allocations:** The applicant submits that it will continue to meet state and local building codes, zoning ordinances and other regulatory requirements.
- d. **New Construction Projects:** This project involves the construction of an information technology office building.

- e. **Cost per square foot:** The total project will cost \$187.84 per square foot for new construction (see Attachment 1). The *Means Building Construction Cost Data, 2007 Edition*, does not compare costs of construction for information technology office building.

GR Criterion 16 - Quality of Care

St. Dominic-Jackson Memorial 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. The facility 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:

	Cost Item	Projected Cost	Percent
a.	Construction Cost -- New	\$ 2,880,758	65.68%
e.	Total Non-Fixed Equipment Cost	600,000	13.68%
f.	Land Cost	-0-	-0-
g.	Site Preparation Cost	-0-	-0-
h.	Fees (Architectural, Consultant, etc.)	220,710	5.03%
i.	Contingency Reserve	288,076	6.56%
j.	Other	<u>396,104</u>	<u>9.03%</u>
k.	Total Proposed Capital Expenditure	<u>\$ 4,385,648</u>	<u>100%</u>

The above estimated capital expenditure is proposed for new construction of 18,045 square feet of space at a cost of \$187.84 per square foot (See Attachment 1). The *Means Building Construction Cost Data, 2007 Edition*, does not compare costs of construction for information technology office building in the state. The proposed project also involves the purchase of non-fixed equipment.

B. Method of Financing

St. Dominic proposes to finance the capital expenditure (\$4,385,648) with cash reserves.

C. Effect on Operating Cost

There are no projected revenues and utilization associated with this project. The only expense associated with the proposed project is depreciation (see Three-Year Projected Operating Statement below):

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St. Dominic Three-Year Operating Statement			
	Year 1	Year 2	Year 3
Revenue			
Patient Revenue:			
Inpatient	\$-0-	\$ -0-	\$ -0-
Outpatient	-0-	-0-	-0-
Total Gross Patient Revenue	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
Charity Care	-0-	-0-	-0-
Deductions	-0-	-0-	-0-
Total Deductions	<u>\$-0-</u>	<u>\$-0-</u>	<u>\$-0-</u>
Net Patient Revenue	-0-	-0-	-0-
Other Operating Revenue	-0-	-0-	-0-
Total Operating Revenue	<u>\$-0-</u>	<u>\$-0-</u>	<u>\$ -0-</u>
Expenses			
Operating Expenses:			
Salaries	\$-0-	\$-0-	\$-0-
Benefits	-0-	-0-	-0-
Supplies	-0-	-0-	-0-
Services	-0-	-0-	-0-
Depreciation	\$154,641	\$154,641	\$154,641
Interest	-0-	-0-	-0-
Other	-0-	-0-	-0-
Total Expenses	<u>\$ 154,641</u>	<u>\$ 154,641</u>	<u>\$154,641</u>
Net Income (Loss)	<u>\$ (154,641)</u>	<u>\$ (154,641)</u>	<u>\$ (154,641)</u>
Utilization			
Inpatient Day	-0-	-0-	-0-
Outpatient Day	-0-	-0-	-0-
Charge Per Outpatient Day	-0-	-0-	-0-
Charge Per Inpatient Day	-0-	-0-	-0-
Cost Per Outpatient Day	-0-	-0-	-0-
Cost Per Inpatient Day	-0-	-0-	-0-

D. Cost to Medicaid/Medicare

According to the applicant, the proposed project is for the construction of an information technology office building, and will not involve inpatient care. Therefore, it will not have any effect on third party payors.

Patient Mix by Type Payer	Utilization Percentage	First Year Expenses
Medicaid	-0-	\$ -0-
Medicare	-0-	-0-
Other	-0-	-0-
Total	-0-	\$ -0-

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.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the criteria and standards for construction, renovation, expansion, capital improvements, replacement, and the addition of hospital beds as contained in the *FY 2007 State Health Plan*; the *Mississippi Certificate of Need Review Manual, Revised November 12, 2006*; 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 St. Dominic-Jackson Memorial Hospital for construction of an information technology office building.

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Attachment 1

Computation of Construction Cost

New Construction: 18,045 square feet

New Construction Square Footage Cost Formula*

A. New Construction	\$2,880,758
E. Fees	\$220,710
F. Contingency Reserve	\$288,076
Total	\$3,389,544
Square Feet	18,045
Cost Per Square Foot	\$187.84

*Source: *Certificate of Need Review Manual, November 12, 2006.*