

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

CON REVIEW: HG-R 0607-014

**SINGING RIVER HOSPITAL SYSTEMS, D/B/A OCEAN SPRINGS HOSPITAL
CONSTRUCTION OF AN OBSERVATION UNIT AND OUTPATIENT SERVICES
IMPROVEMENTS**

CAPITAL EXPENDITURE: \$13,879,110

LOCATION: OCEAN SPRINGS, JACKSON COUNTY, MISSISSIPPI

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Singing River Hospital System ("SRHS") is composed of Singing River Hospital (404 licensed beds) in Pascagoula, Mississippi, and Ocean Springs Hospital (136 licensed beds) in Ocean Springs, Mississippi. Both hospitals are voluntary, not-for-profit institutions, publicly owned and operated by the citizens of Jackson County, Mississippi. SRHS is governed by a nine-member Board of Trustees appointed by the Jackson County Board of Supervisors. Members are appointed as representatives from each District, with two members being appointed from the county at-large. SRHS is fully accredited by the Joint Commission on Accreditation of Healthcare Organizations, has over 200 physicians on its respective medical staffs, and employs approximately 2,000 people, making it one of the largest health care systems in the state.

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

**Ocean Springs Hospital
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2003	63.89	4.74	10.15
2004	67.13	4.67	12.31
2005	71.27	4.81	12.06

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

B. Project Description

Singing River Hospital System is requesting Certificate of Need (CON) authority for the construction of a two-story tower to be located at the northwest corner of Ocean Springs Hospital (OSH) that will house a new 20-bed observation unit, as well as

create new space for the expansion of the hospital's outpatient (non-surgical) services.

This project entails building a two-story addition to the current facility to provide physical space for the expansion of existing outpatient treatment services, a new 20-bed observation unit, physician offices, storage space and meeting and conference rooms. The project does not involve the addition of acute care beds.

The Board of Trustees and Management Team of SRHS engaged the architect firm of FoilWyatt, a firm experienced in healthcare design and development, and Ron Luke, a health planning consultant with Research and Planning Consultants, to assist with the development of a plan for healthcare services at the hospital to meet the current and future healthcare needs of the communities served by Ocean Springs Hospital.

The first floor will consist of 18,363 sq. ft. of new construction and 4,500 sq. ft. of renovation to include the following:

- Relocation of OHS's Congestive Heart Failure Clinic from its current location within the facility;
- New physician's lounge;
- Expansion of the outpatient services area for pre-operative testing and holding, IV therapy administration, antibiotic therapy administration, blood transfusion, and other minor procedures;
- Conference room space;
- Permanent location to support intensivists, a service begun at OHS in June of 2006; and
- General circulation and support space.

The Second Floor will consist of 15,352 square feet of new construction to include four acute care Orthopedic/Neurological beds as an extension of the facility's current 2 North Unit (Ortho/Neuro Floor). The applicant proposes to take four acute care beds out of service from the hospital's existing complement of bed capacity to keep the number of acute inpatient beds the same in the facility. In addition, the applicant proposes to add 20 observation beds to establish a designated Clinical Observation Unit (COU) to house all patients classified as observation status (outpatient) for short-term testing and observation. These beds will not be licensed as acute inpatient beds and therefore will not be added to the facility's bed inventory.

SRHS states that approximately 3,000 square feet of space on the Second Floor will be utilized as training space for nursing education, a community education and conference center, and storage space for stretchers, equipment, etc.

The applicant lists 11 final objectives for the project. Among the final objectives

listed, the applicant seeks to meet the demand for services at Ocean Springs Hospital by creating a dedicated, centralized 20-bed clinical observation unit that will best accommodate the unique needs of observation patients. The project also seeks to alleviate the capacity issues and bottlenecks the facility has seen in recent years (inpatient and outpatient) through the use of a dedicated observation unit. The dedicated observation unit will assist in the capacity issues and bottlenecks of the Emergency Department, the licensed beds within the facility, and the Intensive Care Units.

The applicant projects the addition of a total of 9.4 FTE personnel at a cost of \$443,864 the first year.

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

The applicant expects to obligate the capital expenditure by January 2008 and anticipates that the project will be complete by January 2010.

II. TYPE OF REVIEW REQUIRED

The Mississippi State Department of Health reviews applications for construction and renovation, involving a capital expenditure in excess of \$2,000,000, under the applicable statutory requirements of Section 41-7-173, 41-7-191 (1) (j), and 41-7-193, Mississippi Code of 1972, 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 September 4, 2007.

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

A. State Health Plan (SHP)

The *FY 2007 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.

SHP Criterion 1 – Need

Projects which do not involve the addition of any acute care beds: The applicant shall document the need for the proposed project. Documentation may consist of, but is not limited to, citing of licensure or regulatory code deficiencies, institutional long-term plans (duly adopted by the governing board), recommendations made by consultant firms, and deficiencies cited by accreditation agencies (JCAHO, CAP, etc.).

This project entails building a two-story addition to the current facility to provide physical space for the expansion of existing outpatient treatment services, a new observation bed unit, physician offices, storage space and meeting and conference rooms. The project does not involve the addition of any acute care beds. The applicant engaged Research & Planning Consultants, L.P. as part of a planning process to evaluate the need for this project. According to Research & Planning Consultants, L.P., the proposal is consistent with national trends and with general health planning principles.

The study indicates that OSH currently scatters observation patients throughout various inpatient nursing units, and attempts to concentrate post procedure cardiac catheterization observation patients in an existing seven-bed patient observation area located near the emergency department. The seven-bed area is made up of small rooms that lack bathrooms and exterior windows.

An observation patient is a patient who receives services on the hospital's premises, including the use of a bed and periodic monitoring by appropriate nursing or other staff, which are reasonable and necessary to evaluate the outpatient's condition and to determine the need for possible inpatient admission.

According to the study, an observation bed allows medical professionals to observe a patient for up to 23 hours without tying up an emergency treatment bay, to determine whether the patient's condition warrants admission as an inpatient. Observation beds free up hospital emergency department, diagnostic and other procedure unit space for the treatment of additional patients, enabling hospitals to more efficiently use their scarce and expensive resources. Observation beds also improve quality of care for outpatients undergoing diagnostic procedures, surgery, and other treatment by allowing them to remain in the hospital, if needed, with appropriate clinical oversight, without disrupting the flow or other patients.

The study concluded that:

- The physical addition to the facility should assist OSH in reducing bottlenecks in the delivery of services and in its disaster-preparedness efforts. The addition of observation beds, along with continued operational improvement, should enable OSH to manage emergency department patient

wait time and ambulance diversions.

- The addition of physical space and the subsequent reduction in service bottlenecks will result in a number of benefits to the hospital and its staff and patients. The expansion will boost the productivity of nursing and other clinical staff for which there are national shortages. This addition to the hospital will also reduce delays in patient treatment caused by backlogs and ambulance diversions and lower the probability of medical errors.
- Based on the information provided in the report, this planned expansion and renovation project at OSH will improve the hospital's ability to meet the needs of the community it serves through measures that will positively impact the efficiency of providing services and the quality of care provided. These benefits to the community will result from improved functional layout of hospital space which will enable services to be provided in a more efficient and effective manner.

SHP Criterion 3 – Uncompensated Care

Ocean Springs Hospital submits that it provides a reasonable amount of charity/indigent care. The application indicates that OSH provided 2.4% of its gross patient revenue to medically indigents during FY 2005 and 2.8% in FY 2006. It projects to provide 3.0% in FY 2009 and FY 2010.

SHP Criterion 4 –Cost of Project

The project involves 33,715 sq. ft. of new construction at \$349.76 per square foot, and 4,500 sq. ft. of renovation at \$149.78 per square foot. Projects listed in the Means Construction Cost Data, 2007 Edition, average from a low of \$164 per square foot to a high of \$300 per square foot for hospitals. The Means Construction Cost Data does not compare cost of renovation projects. The application contains a list of similar projects reviewed by the Department in August 2006 and February 2007 that range in cost per square foot of new construction from \$340.61 to \$386.64.

Equipment Cost: The applicant does not expect excessive equipment costs which exceed the median costs for equipment of similar quality by more than 15 percent.

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 criteria and standards contained in the FY 2007

State Health Plan for projects that do not involve additional acute care beds.

GR Criterion 2 - Long Range Plan

The applicant states working with a team of architects and consultants, the Board of Trustees, management team and medical staffs of Singing River Hospital System have developed a long-term facilities plan designed to improve the utilization and efficiency of OSH. The applicant further states that the planning process is ongoing and over the past ten years the plan has continued to evolve in a manner that best meets the changes in the market and healthcare environment. This proposed project is consistent with the long range plan.

GR Criterion 3 – Availability of Alternatives

The applicant states that several alternatives to expand the facility in a manner that would meet the current and long-term needs of the hospital in the most cost effective manner were considered. These alternatives were as follows:

- A CON to construct a three-story tower to house 60 additional licensed inpatient beds at the hospital was filed in 2003. This plan was considered for implementation again and was rejected for several reasons. First, construction costs have risen dramatically along the Coast in the past five years, effectively doubling the estimated cost to build a tower of this size and scope. Second, the hospital has a need for a dedicated Observation Unit to better meet the unique needs of patients who are in the facility for a short period of time and classified in this outpatient category. By constructing a dedicated unit of this nature, the licensed beds in the facility can be more effectively utilized for true inpatient needs.
- After much review and analysis, it was determined that the best approach to meet the current and future needs of the healthcare system is to expand the current outpatient services area of the facility and to add a 20-bed dedicated Observation Unit to the services of the hospital.
- Once the above strategy was formulated, several alternatives to constructing a new tower were then considered. Internal renovation within the facility was considered. However, it was determined that there is not sufficient space within the facility to accommodate the space required for an Observation Unit and to expand the hospital's outpatient services. In addition to renovation, building new square footage on top of the existing structure of the hospital was considered. However, this option was rejected due to the disruption that it would cause the inpatients of the facility, as well as the latest wind and architectural rating requirements of facilities on the Gulf Coast.
- The applicant determined that a new two-story tower on the northwest corner of the hospital campus would be the most appropriate and cost-effective way to meet the need for healthcare services in the community and

to expand the square footage of the facility for the project.

GR Criterion 4 - Economic Viability

Based on the applicant's three-year projections, this project will realize net operating income of \$567,068 the first year, \$1,305,368 the second year and \$1,616,052 during the third year of operation.

According to the applicant, the proposed charges are comparable to the charges established by other facilities in the service area and state. The profitability is expected to be in line with the profitability of similar services throughout the state and the projected levels of utilization are consistent with similar facilities.

The application contains a letter from the chief financial officer attesting to the viability of this project.

GR Criterion 5 - Need for the Project

The applicant indicates that it serves all residents in the service area, including low income persons, racial and ethnic minorities, women, handicapped persons and other underserved groups, and the elderly.

Singing River Hospital System engaged a consultant firm to assist in the assessment of need for this project. The recommendations made by the consulting firm are stated in the State Health Plan section of this staff analysis.

The proposed project should have no adverse effect on existing facilities in the area because no additional acute inpatient beds or services will be added.

The application contains 34 letters of support for the project from physicians, elected officials, and the Jackson County Economic Development Foundation.

GR Criterion 6 - Access to the Facility or Service

According to OSH, all residents of the health planning service area, hospital service area or patient service area, including Medicaid recipients, charity/medically indigent patients, racial and ethnic minorities, women, handicapped persons and the elderly have access to the services of the existing facility and will continue to do so.

The applicant submits that OSH has no obligations under any federal regulations requiring uncompensated care, community service, or access by minority/handicapped persons.

The applicant reports that in 2005, 2.4 percent, and in 2006 2.8 percent of its gross

patient charges resulted in uncompensated care. The applicant further projects that 3.0 percent of its services will be utilized by medically indigent patients in 2009.

GR Criterion 7 - Information Requirement

Ocean Springs 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 submits that there are no known comparable observation units in area hospitals. A number of patients will access the observation unit directly from emergency services. The outpatient services area will typically be accessed by patients after first going through outpatient registration.

OSH states that the centralized observation unit (COU) will work hand-in-hand with emergency services, area physicians, and inpatient physicians (hospitalists). Physicians and caregivers will have a central point-of-contact and location for admitting observation patients.

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 7.

GR Criterion 9 - Availability of Resources

The applicant states that it has been successful at recruiting nursing and support personnel. Most of the vacant positions as a result of Hurricane Katrina have been filled. The applicant feels confident that open positions will be filled. The applicant states that with 240 physicians on its medical staff, sufficient physicians are available to implement the project. The centralized observation unit will be staffed by a combination of internal transfers and new hires.

GR Criterion 10 – Relationship to Ancillary or Support Services

The applicant submits that it has a full compliment of ancillary services including, but not limited to, laboratory services, drugs, wound care, radiology, operating room services, respiratory care, physical therapy, and anesthesiology. The applicant expects that there will be no material change in costs or charges as a result of the proposed project.

GR Criterion 14 - Construction Projects

The application contains a schematic drawing and a cost estimate prepared by FoilWyatt Architects & Planners, P.A.

The total project will cost \$349.76 per square foot for new construction and \$149.78 per square foot of renovation. The *Means Building Construction Cost Data, 2007 Edition* indicates that new construction costs for hospital projects range from \$164 to \$300 per square foot. The *Means Building Construction Cost Data* does not compare costs of renovation projects.

GR Criterion 16 - Quality of Care

Ocean Springs 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 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
Construction Cost -- New	\$10,114,500	73.00%
Construction Cost -- Renovation	450,000	3.00%
Fixed Equipment		0.00%
Non-Fixed Equipment	1,328,000	10.00%
Land Cost		0.00%
Site Preparation		0.00%
Fees (Architectural, Consultant, etc.)	1,056,450	8.00%
Contingency Reserve	845,160	6.00%
Other Costs	85,000	0.04%
Total Proposed Capital Expenditure	\$13,879,110	100.00%

The above capital expenditure is proposed for the construction of a two-story tower at OSH. The facility will consist of 33,715 square feet of new construction at a cost of \$349.76 per square foot and 4,500 square feet of renovation at \$149.78 per square foot (See Attachment 2).

B. Method of Financing

The project will be financed with cash reserves. The financial statements contained in the application indicate that sufficient funds are available for the project.

C. Effect on Operating Cost

The Three-Year Projected Operating Statement is presented at Attachment 1 of this Staff Analysis.

D. Cost to Medicaid/Medicare

Based on revenue source projections presented in the application, the effect of the project on third party payers is as follows:

Payer Mix	Utilization Percentage	First Year Expenses
Medicaid	8	\$ 731,631
Medicare	46	4,453,884
Other	46	4,472,163
Total	100	\$9,657,678

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for review and comment. Medicaid takes no position on this project.

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 State Department of Health.

The Division of Health Planning and Resource Development recommends approval of this application submitted by Ocean Springs Hospital for the Construction of an Observation Unit and Outpatient Services Improvements.

Attachment 1

Ocean Springs Hospital
 Three-Year Operating Statement

	Year 1	Year 2	Year 3
Revenue			
Patient Revenue:			
Inpatient	\$ 5,221,048	\$ 8,590,991	\$ 2,710,545
Outpatient	<u>4,436,630</u>	<u>7,286,307</u>	<u>10,754,980</u>
Gross Patient Care Revenue	<u>\$ 9,657,678</u>	<u>\$ 15,877,298</u>	<u>\$23,465,525</u>
Deductions from Revenue	7,146,681	11,939,430	17,951,127
Net Patient Care Revenue	\$ 2,510,997	\$ 3,937,868	\$ 5,514,398
Total Operating Revenue	\$ 2,510,997	\$ 3,937,868	\$ 5,514,398
Operating Expenses			
Salaries	\$ 328,788	\$ 616,016	\$ 1,299,790
Benefits	115,076	215,606	454,928
Supplies	526,889	807,702	1,130,452
Services	100,000	110,000	120,000
Lease			
Depreciation	773,176	773,176	773,176
Interest			
Other	<u>100,000</u>	<u>110,000</u>	<u>120,000</u>
Total Operating Expenses	<u>\$ 1,943,929</u>	<u>\$ 2,632,500</u>	<u>\$ 3,898,346</u>
Net Operating Income (Loss)	<u>\$ 567,068</u>	<u>\$ 1,305,368</u>	<u>\$ 1,616,052</u>
Assumptions			
Inpatient Days	701	1,068	1,463
Outpatient Days			
Procedures	11,749	17,900	24,520
Charge per outpatient day			
Charge per inpatient day	\$ 7,448	\$ 8,044	\$ 8,688
Charge per procedure	\$ 822	\$ 887	\$ 957
Cost per inpatient day	\$ 2,773	\$ 2,465	\$ 2,665
Cost per outpatient day			
Cost per procedure	\$ 165	\$ 147	\$ 159

Attachment 2

Ocean Springs Hospital

Computation of Construction and Renovation Cost

Cost Component	Total	New Construction	Renovation
New Construction Cost	\$10,114,500	\$10,114,500	
Renovation Cost	\$450,000		\$450,000
Total Fixed Equipment Cost			
Total Non-Fixed Equipment Cost	\$1,328,000	\$0	
Capital Improvement	\$0		
Land Cost	\$0	\$0	
Site Preparation Cost	\$0	\$0	
Fees (Architectural, Consultant, etc.)	\$1,056,450	\$932,000	\$124,450
Contingency Reserve	\$845,160	\$745,600	\$99,560
Capitalized Interest	\$0	\$0	\$0
Other	\$85,000		
Total Proposed Capital Expenditure	\$13,879,110	\$11,792,100	\$674,010

Square Footage	38,215	33,715	4,500
Allocation Percent		88.22%	11.78%

Costs Less Land, Non-Fixed Eqt. & Cap. Improvement	\$12,551,110	\$11,792,100	\$674,010
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Cost Per Square Foot	\$328.43	\$349.76	\$149.78
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