

**DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
NOVEMBER 2008**

CON REVIEW: HG-C 0908-032

**SINGING RIVER HOSPITAL SYSTEM d/b/a SINGING RIVER HOSPITAL
CONSTRUCTION/ELECTRICAL SERVICES UPGRADE**

CAPITAL EXPENDITURE: \$4,383,032

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 located in Pascagoula, Jackson County, Mississippi. SRHS is owned by Jackson County and is governed by a nine-member Board of Trustees. The facility is certified to participate in the Medicare and Medicaid programs and is accredited by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO).

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

**Singing River Hospital
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2006	25.59	4.51	16.38
2007	24.83	4.26	18.00

Source: Division of Health Facilities Licensure and Certification,
MSDH

B. Project Description

Singing River Hospital System d/b/a Singing River Hospital, located on the Gulf Coast, requests CON authority to elevate and relocate its electrical services. The applicant states that the location of the hospital makes it susceptible to storm surges and potential flooding. The electrical service at the hospital is at a greater risk because it is located on the lower level of the hospital which is close to sea level.

The first component of the proposed project will be to construct a new 2,450 square foot electrical room directly above the existing generator room. The electrical service room/building will be elevated about 20 feet above grade, 35 to 40 feet above sea

level, and physically connected to the hospital, thus allowing easy access and convenient trouble-shooting during severe weather.

The other component of this proposed project is to upgrade the existing backup and critical electrical service to the hospital. The hospital currently has two generators which are susceptible to being over loaded during backup operations. The electrical upgrade also seeks to update infrastructure that will allow the hospital to provide current day code provisions related to redundant and back up power, as well as proper Normal, Critical and Equipment branch circuiting.

The proposed project requires the applicant to purchase some additional fixed equipment. There will be a new switch gear and paralleling gear installed to transfer power from the utility company to the back up generators during power outages. Also, there will be a 30,000 gallon fuel tank with a bulk head to separate two types of fuel.

The applicant states that upon completion of the proposed project the two existing generators will be taken out of service and sold and the old generator room will be used as an electrical junction room for the proposed project.

The project is proposed to be funded by the hospital's cash reserves, and no additional personnel are required.

The Division of Health Facilities Licensure and Certification has approved the site for the generators; the applicant proposes to obligate the capital expenditure December 2008, and the project is expected to be completed by June 2009.

II. TYPE OF REVIEW REQUIRED

The Mississippi State Department of Health reviews applications for the acquisition and installation of facility generators 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), 41-7-193, and 41-7-195, 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 December 4, 2008.

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

A. State Health Plan (SHP)

The *FY 2009 State Health Plan (SHP)* does not contain criteria and standards for the construction/electrical services upgrade as proposed by this project. However, the project is in substantial compliance with the overall objectives of the Plan.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, Revised February 23, 2008*, addresses general criteria by which all CON applications are reviewed.

GR Criterion 1 – Consistency with the State Health Plan

The project is consistent with the goals contained in the *FY 2009 State Health Plan*.

GR Criterion 2 - Long Range Plan

The applicant states that the management team and staff at SRH are working with a team of architects to organize and develop a long-term facility plan designed to improve patient safety, quality and consistency of care through electrical service upgrade. Based upon the geographical location of the hospital, it is subject to hurricanes and other tropical disasters. As a result, it was deemed necessary to upgrade and elevate the hospital's electrical backup generators. The upgrade will allow the facility to operate when the local utilities fail and provide services during unforeseen catastrophic events, as well as meeting the demands placed on the hospital by accrediting agencies.

The applicant contends that the planning process, over the past two years, has continued to evolve into a plan that most effectively meets or exceeds the infrastructure needs of the hospital. SRH further contends that the proposed project represents an integral part of the hospital's long-range plan of ensuring a safe and reliable facility to its patients, thus becoming recognized as a world-class leader in healthcare.

GR Criterion 3 – Availability of Alternatives

SRH states that after identifying the need to expand and upgrade the electrical backup generators the team considered the following two alternatives:

- Add generators to the existing lineup to gain the increased operating capacity, or;

- To replace them with higher capacity equipment.

The applicant determined that the most beneficial option would be to elevate and increase the electrical plant, which requires physically relocating the services. By purchasing higher capacity generators now instead of in the future, the organization will be able to meet current and future needs while eliminating repetitive costs of installation.

The applicant submits that installing the proposed generators will allow the hospital to maintain its commitment to the community and remain open in times of severe weather to offer a full range of services while other healthcare facilities may choose to close.

GR Criterion 4 - Economic Viability

The proposed project is not intended to directly generate revenue; therefore, the proposed generators will cost the hospital \$178,488 for the first three years of operation, according to the applicant's three-year projected operating statement contained in the application.

The application contained a letter signed by Singing River Hospital System's chief financial officer stating that the hospital has the financial ability to undertake this obligation.

GR Criterion 5 - Need for the Project

The applicant believes there is a need for this project based on the following factors:

- The existing backup and critical electrical service to the hospital has not been upgraded in several years and requires some additional provisions to meet current healthcare and capacity standards;
- The current backup and critical power generators will not generate enough capacity to operate the entire hospital in the event of a power outage;
- To continue participation in the statewide trauma system as a Level III facility; and
- To allow SRH to remain fully operational in the event of a catastrophic outage.

The application contains a letter of support from the Governmental and Healthcare Segment Manager with Mississippi Power Company.

GR Criterion 6 - Access to the Facility or Service

- a. Medically Underserved Population:** According to the applicant, all patients in the 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.
- 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 Served by Applicant:** The applicant submits that in 2006 and 2007 3.80% of its gross patient charges resulted in uncompensated care. The applicant continues to project the same percentage of its services will be utilized by medically indigent patients for the two subsequent years upon completion of this project.
- d. Range of Means to Provide Access:** SRH is located on Highway 90 in Pascagoula, Mississippi, and can be accessed from Interstate 10 through Highway 63 South, then Highway 90 West. The applicant contends that its patients can also access the hospital by several county streets. The applicant further contends that SRH does not utilize restrictive admission policies; however, it treats patients regardless of ability to pay and has a written policy that governs the hospital's charity care policy, which is attached to the application.

SRH operates 7 days per week at 24 hours per day, 365 days a year.

GR Criterion 7 - Information Requirement

The applicant affirms 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 states that Biloxi Regional Medical Center, Gulfport Memorial Hospital, Garden Park Hospital, and George Regional Medical Center provide Emergency services in GHSA 7 and there are no discernable differences in the population base; however, the commitment to provide uninterrupted services during unforeseen catastrophic events may vary.

The proposed generators will allow the hospital to remain fully operational and receive patients from other facilities in the event of a power outage.

SRH does not anticipate that the approval of this application will have an adverse impact on other providers in GHSA 7, but does believe that failure to implement the proposed project would be considered poor planning for emergency preparedness, which could result in poor patient outcome.

GR Criterion 9 - Availability of Resources

The applicant contends that no additional staff is needed for the proposed project.

GR Criterion 10 – Relationship to Ancillary or Support Services

The applicant states that the hospital has all necessary support and ancillary staff and does not anticipate a need to increase any of the same to operate the new generators.

GR Criterion 12 – Health Professional Training

The applicant submits that the hospital will continue to participate in health training programs in the area.

GR Criterion 14 – Construction Projects

The application contains a signed copy of the cost estimate prepared by RTKL Louisiana Professional Corporation, Lance Josal, and a schematic drawing of the proposed construction project.

The capital expenditure is proposed for the acquisition and installation of two facility generators. Approximately 2,450 square feet of new construction at a cost of \$1,788.99 per square foot, will be utilized for the proposed project (See Attachment 2). The applicant's cost estimate states the cost of \$1,524.71 per square foot, which ranks above the high quadrant. The applicant contends that these costs are consistent with other projects of like kind.

GR Criterion 16 - Quality of Care

Singing River Hospital System 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's quality of care is evidenced by various accreditations, awards and recognitions.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

The total estimated capital expenditure of \$4,383,032 is allocated as follows:

Cost Item	Projected Cost	Percent
New Construction	\$2,705,000	61%
Fixed Equipment	1,030,532	24%
Non-Fixed Equipment		
Land Cost		
Site Preparation		
Fees (Architectural, Consultant, etc.)	295,000	7%
Contingency Reserve	352,500	8%
Total Proposed Capital Expenditure	\$4,383,032	100%

B. Method of Financing

SRH proposes to finance the capital expenditure through cash reserves. The financial statements contained in the application indicate that sufficient funds are available for the proposed project.

C. Effect on Operating Cost

The applicant's Three-Year Projected Operating Statement is provided as Attachment 1 of this staff analysis.

D. Cost to Medicaid/Medicare

Since this project is a non-revenue producing project, the cost to third party payors is insignificant.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

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

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the overall objectives as contained in the *FY 2009 State Health Plan*; the *Mississippi Certificate of Need Review Manual, Revised February 23, 2008*; 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 Hospital System for the electrical services upgrade, acquisition, and installation of two facility generators.

Attachment 1

**Singing River Hospital Systems
 /d/b/a
 Singing River Hospital
 Construction/Electrical Services Upgrade
 Three-Year Projected Income Statement
 Project Only**

Revenue	Year 1	Year 2	Year 3
Gross Inpatient Revenue:			
Outpatient Care Revenue			
Gross Patient Care Revenue			
Deductions From Revenue			
Charity Care			
Other			
Total Deductions from Revenue			
Net Patient Care Revenue			
Other Operating Revenue			
Total Operating Revenue			
Operating Expense			
Salaries	\$ 0	\$ 0	\$ 0
Benefits	0	0	0
Supplies	0	0	0
Services	0	0	0
Lease	0	0	0
Depreciation	178,488	178,488	178,488
Interest	0	0	0
Other	<u>0</u>	<u>0</u>	<u>0</u>
Total Operating Expense	\$ 178,488	\$ 178,488	\$ 178,488
Net Operating Income (Loss)	\$(178,488)	\$(178,488)	\$(178,488)

SRH projects total operating revenues of \$162,036,643 the first year, \$168,496,327 the second year, and \$175,230,908 the third year, which are sufficient to cover the losses projected by this project.

Attachment 2
Singing River Hospital Systems
d/b/a
Singing River Hospital
Computation of Construction Cost

	<u>Cost Component</u>	<u>Total</u>	<u>New Construction</u>	<u>Renovation</u>
A	New Construction Cost	\$2,705,000	\$2,705,000	
B	Renovation Cost			\$0
C	Total Fixed Equipment Cost	\$1,030,532	\$1,030,532	
	Total Non-Fixed Equipment Cost	\$0	\$0	
	Land Cost	\$0	\$0	
D	Site Preparation Cost	\$0	\$0	
E	<i>Fees (Architectural, Consultant, etc.)</i>	\$295,000	\$295,000	\$0
F	<i>Contingency Reserve</i>	\$352,500	\$352,500	\$0
G	<i>Capitalized Interest</i>	\$0	\$0	\$0
	Total Proposed Capital Expenditure	\$4,383,032	\$4,383,032	\$0

Square Footage	2,450	2,450	0
<i>Allocation Percent</i>		100.00%	0.00%

Costs Less Land, Non-Fixed Eqt.	\$4,383,032	\$4,383,032	\$0
--	--------------------	--------------------	------------

Cost Per Square Foot	\$1,788.99	\$1,788.99	\$0.00
-----------------------------	-------------------	-------------------	---------------

Cost per Bed (n=100)	\$477,201
-----------------------------	------------------