

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
MAY 2009**

**CON REVIEW: HG-RLS-O209-006
RIVER OAKS HOSPITAL, LLC D/B/A
RIVER OAKS HOSPITAL
CONSTRUCTION/REPLACEMENT AND RELOCATION
OF EMERGENCY ROOM
CAPITAL EXPENDITURE: \$8,067,055
LOCATION: FLOWOOD, RANKIN COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

River Oaks Hospital, LLC d/b/a River Oaks Hospital is a wholly owned subsidiary of Mississippi HMA Holdings 1, LLC, an affiliate of Health Management Associates, Inc. (HMA), Florida. River Oaks Hospital (ROH) is a 110-bed, short-term general acute care hospital operated and managed by HMA and governed by a fifteen (15) member Board of Trustees. River Oaks Hospital is accredited by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO) and certified for participation in the Medicare and Medicaid programs.

The occupancy rates, average lengths of stay (ALOS) and the Medicaid utilization rates for the medical surgical beds at ROH are as follows for the three most recent fiscal years:

**River Oaks Hospital
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2006	75.02	3.93	22.01
2007	88.51	3.94	26.54
2008	69.34	3.79	24.70

Source: Division of Health Facilities Licensure and Certification, Mississippi State Department of Health, (MSDH)

B. Project Description

River Oaks Hospital, LLC d/b/a River Oaks Hospital is requesting Certificate of Need (CON) authority for construction/replacement and relocation of emergency room. River Oaks Hospital plans to replace and relocate its entire emergency room (ER) to a newly constructed, shelled-in area proximal to its current location.

The applicant indicates that ROH's current ER is in need of replacement and expansion as much of the equipment and facilities have become outdated and the ER lacks sufficient space to appropriately accommodate its patients. River Oaks Hospital needs additional space in its ER to treat patients in a manner consistent with the demands of current medical standards. There will also be minimal renovation in the space currently accommodating the ER in order to connect it to the new space and reconfigure it for use as support space.

The applicant states that the current emergency room is approximately 4,533 square feet and provides service in the following areas: nine (9) exam rooms, two (2) trauma rooms, four (4) fast track rooms, and ancillary spaces.

River Oaks Hospital asserts that the new design will mirror the above spaces with the addition of four (4) observation rooms. This design will increase patient privacy as well as provide larger spaces for admissions, triage, nursing units, patient waiting, emergency department, fast track and ancillary spaces for future growth. Included with this project will be an imaging area to provide services for two (2) R&F rooms, one (1) CT room, equipment storage, and dressing area. The area is approximately 1,750 square feet and is located adjacent to the emergency room.

The applicant believes that renovating and expanding the existing ER is not feasible due to space constraints, patient flow, the interruption of patient care, and the limitations of the facility site due to under ground utilities and drainage systems. ROH's ER treats patients 24 hours a day and any renovation activities in the existing facility would severely hinder River Oaks Hospital's ability to deliver proper emergency care to its patients, as portions of the emergency department would have to be shut down while renovation was in process. ROH will relocate equipment, to the extent equipment can be relocated, to the new ER. River Oaks Hospital contends that it will also purchase equipment which cannot be relocated or is outdated and in need of replacement.

The applicant proposes a total capital expenditure of \$8,067,055 composed of new construction (47.66 percent) and non-fixed equipment (52.34 percent). (See capital expenditure summary, page 10). The applicant proposes to fund the project from cash as an inter-company transfer provided by the hospital's parent company, Health Management Associates, Inc. (HMA). The application contains a letter signed by ROH's chief financial officer, attesting to the hospital's and its parent company's ability to service the anticipated debt from operations and cash reserves without a negative effect on present and future operation.

According to the applicant, the capital expenditure for this project will be obligated within 90 days upon CON approval. The applicant proposes the completion within 12 months of commencement.

II. TYPE OF REVIEW REQUIRED

This project is reviewed in accordance with Sections 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 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 June 8, 2009.

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

A. State Health Plan (SHP)

The *FY 2009 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

River Oaks Hospital indicates that the existing ER at ROH was designed for a delivery system that functioned much differently than today's system. The existing emergency room is functionally obsolete, is undersized, and does not adequately accommodate the demands of 21st century emergency care. The design and space deficiencies are apparent throughout the ER. For example, the ambulatory patient entrance and emergency vehicle entrance are adjacent under a shared canopy. Although signage indicates the canopy is for emergency vehicles only, ambulatory patients arriving by private vehicle, particularly in inclement weather, often ignore this directive. Furthermore, the emergency entrance is accessible only by one of two circuitous routes around the main building off River Oaks Drive. This route is also used to access staff and visitor parking and is frequently subject to pedestrian traffic.

The applicant believes that the relocation and expansion of the ER will enable the hospital to provide a level of care consistent with the needs of the population.

The following table shows the outpatient utilization for the past three years.

ROH's Emergency Utilization (FY 2006 – FY 2008)

	FY 2006	FY 2007	FY 2008
Emergency	19,873	21,125	20,984
Clinic/Other	41,028	43,973	40,955
Total	<u>60,901</u>	<u>65,098</u>	<u>61,939</u>

Source: Application for Renewal of Hospital License, MSDH

River Oaks participates in the Mississippi Trauma Network as a Level IV Trauma center.

SHP Criterion 2 – Bed Service Transfer/Reallocation/Relocation

This project does not propose the transfer, reallocation, or relocation of beds. This project involves new construction/replacement and relocation of emergency room.

SHP Criterion 3 – Charity/Indigent Care

According to River Oaks Hospital, the applicant complies with all state and federal requirements regarding emergency treatment of medically indigent patients that are presented to its emergency room as referenced in the *Plan*.

SHP Criterion 4 – Cost of Project

According to the applicant, the proposed project involves new construction of 11,997 square feet of space.

The project will cost \$320.48 per square foot for new construction (see Attachment 2). The *Means Construction Cost Data, 2009 (MCCD)*, lists the costs for hospital construction to range from \$185 to \$315 per square foot. The proposed project's new construction cost per square foot is above the high range for hospitals as listed in *MCCD 2009*.

According to the applicant, HHCP Architects P.A. determined that the costs are within the normal range to be expected in the Mississippi area, particularly given the amount of demolition of existing structures (parking slab on grade, floor slab on grade, concrete encasement of structural steel columns, ductwork, plumbing, lighting, fire sprinklers, etc.) involved, and the lack of economy of scale for the smaller scale like this one. HHCP Architects further assert that the project include a concentration of complex medical equipment, with required supports, shielding, and utilities, as well as requirements for installation of high tech communication, monitoring, and imaging/diagnostic equipment.

The applicant contends that the equipment cost (non-fixed equipment) for the proposal, estimated to be \$4,222,305, does not exceed by more than 15 percent the median costs for similar projects. The equipment prices were obtained through HMA's equipment specialists using corporate discounts, where applicable.

SHP Criterion 5 – Floor Areas and Space Requirements

River Oaks Hospital contends that its architect, HHCP Architects, P.A., has designed the space and size specifications to at least the minimum requirements of the most recent edition of the *AIA Guidelines for Design and Construction of Healthcare Facilities*. This includes typical exam/treatment and trauma rooms, required support spaces, and internal corridors. The proposed emergency department is designed into a space already planned for it, on the ground floor of a patient tower currently under construction. It has two exterior perimeter walls and it abuts a perimeter corridor system on the ground floor of the tower. The applicant believes that for the ROH's program requirement, it is appropriately sized.

The application contains a schematic drawing of the proposed project.

SHP Criterion 6 – Renovation versus Replacement

River Oaks Hospital indicates that this criterion does not apply to the proposed construction/replacement and relocation of an emergency room at ROH. The applicant asserts that although the proposal entails the replacement of the emergency room in existing shelled-in-space, comparable renovation in the current location is not practicable or less costly.

SHP Criterion 7 – Service Specific Criteria

The application does not propose any new services. River Oaks Hospital is a current provider of emergency services.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, 2008 Revision*, addresses general criteria by which all CON applications are reviewed. This application is in substantial compliance with general review criteria.

GR Criterion 2 - Long Range Plan

According to the applicant, there is a continuing need for the project and the renovation and expansion of the emergency room is consistent with the adopted long-range plans of ROH. The applicant states that the proposed emergency room at ROH has previously been approved as part of CON #R-0631 (vision 2003 facility expansion/renovation and MOB). Due to an increase in the overall project cost resulting from delays related to the appeal process, the ER was not constructed as anticipated in CON #R-0631. River Oaks Hospital states that the proposed project seeks to reinstate the earlier request to expand and relocate the ER from its current location to shelled-in space created under CON #R-0631. Furthermore, ROH asserts that it is a participant in the Mississippi Trauma Network as a Level IV Trauma Center.

GR Criterion 3 – Availability of Alternatives

The applicant considered three alternatives before proceeding with the proposed project:

Do Nothing. ROH contends that to maintain the status quo is the least desirable alternative. This alternative has the obvious advantage of eliminating the capital expense related to any type of renovation and expansion. It has many disadvantages that, over time, would result in increased costs as well as a reduction in quality and continuity of care. Based on the many obvious disadvantages to maintaining the status quo, this alternative was rejected.

Renovate existing ER with internal construction. According to River Oaks Hospital, the renovation of the ER with expansion through use of existing space within the hospital but outside of the existing ER was briefly considered. This alternative has the advantage of being less costly than new construction. However, there is no existing contiguous space in which to expand the emergency room. Furthermore, any scenario that included the renovation of the existing ER would disrupt patient care and likely require that the emergency room be temporarily closed during renovation. Based on these disadvantages, this alternative was rejected.

Renovate existing ER and expand outward. The applicant asserts that ROH considered expanding the ER to incorporate the portion of the campus immediately adjacent to the ER that accommodates the ambulance entrance and visitor/staff parking. This alternative would also include the renovation and use of the existing ER space. This alternative has the advantage of requiring less new construction. However, the ultimate cost of new construction would still be greater than the selected alternative because it would require the rerouting of underground utilities and drainage systems. Furthermore, any scenario that included the renovation of the existing ER would disrupt patient care and likely require that the ER be

temporarily closed during renovation. Based on these disadvantages, this alternative was rejected.

According to River Oaks Hospital, based on the disadvantages, the above alternatives were rejected and the selected alternative consists of building out approximately 12,000 square feet of shelled-in space in a newly constructed area just south of and proximal to the existing emergency room. The benefits of this alternative include, but are not necessarily limited to, the following: (1) much of the infrastructure has been constructed (the shelled-in area is part of the partially completed construction approved under the CON #R-0631, titled: "Vision 2003 Facility Expansion/Renovation and Medical Office Building") thereby reducing the time and cost required when compared to all new construction as mentioned in alternative number three; (2) the space can be specifically designed to accommodate a state-of-the-art emergency room without having to work around the structural limitations of a renovation as described in alternatives two and three; (3) the existing ER can be utilized until such time as the new ER is complete, thereby eliminating any disruption in patient care; and (4) the new ER will permit easier access than the current location with an entrance located on Flowood Drive.

GR Criterion 4 - Economic Viability

The application contains a financial feasibility study prepared and signed by the chief financial officer of River Oaks Hospital, attesting to the financial feasibility of this project.

River Oaks Hospital projects net income to be \$51,009 the first year, \$66,698 the second year, and \$68,738 the third year after completion of this project. See effect on operating cost, page 12.

GR Criterion 5 - Need for the Project

The applicant asserts that based on the rate of hospital emergency visits in General Hospital Service Area 3, Rankin and Hinds County residents can be expected, by 2013, to generate approximately 237,000 emergency room visits. These visits are reasonably expected to be comprised of individuals encompassing a broad range of demographic characteristics, including those with low incomes, racial and ethnic minorities, women, handicapped persons, and other underserved groups. ROH currently provides care to all these groups irrespective of their defining demographic characteristic. The relocated and expanded ER will enable ROH to more appropriately accommodate individuals representing all these groups.

River Oaks Hospital indicates that the hospital's existing emergency room is functionally obsolete and cannot, without expansion and replacement, adequately accommodate the growing demands of the service area. The replacement ER will provide a physical environment that promotes accessibility, timely response, efficient operations, and improved continuity and quality of care. ROH believes that this project promotes both quality assurance and cost effectiveness. The relocation and expansion of the ER will enable the hospital to provide a level of care consistent with the needs of the population. All components of the population, including underserved groups, will benefit from improved accessibility, more efficient throughput, and more modern and efficient design.

River Oaks Hospital asserts that the exact disposition of the existing ER has not yet been determined, although it is likely that it will be used by the hospital to accommodate support

services. The disposition of the existing emergency room will have no financial impact on the proposed project.

The applicant asserts that the final objective of this proposal is to improve the delivery of urgent and emergency care to residents of the service area and others through the modernization and expansion of the emergency room of ROH. As a central component of this objective, the hospital intends to achieve these improvements in the most cost effective manner possible and with minimum disruption of services.

The applicant asserts that ROH does not expect that the proposed project will have any negative impact on other providers in the service area, because the project does not propose to add an additional facility or services to the service area.

The application contains sixteen (16) letters of support for the proposed project, and no letters of opposition were received.

GR Criterion 6 - Access to the Facility or Service

According to ROH, 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, and elderly persons have access to the existing services of ROH.

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

The following table shows the percentage of estimated gross patient revenue and actual dollar amount of health care provided to Medicaid and medically indigent patients for the past three fiscal years at River Oaks Hospital:

Gross Patient Revenue

	Medically Indigent %	Charity Care %
Historical Year 2007	4.7	2.9
Historical Year 2008	3.9	3.0
Projected Year 1	3.9	3.0
Projected Year 2	3.9	2.9

GR Criterion 7 - Information Requirement

River Oaks Hospital 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

According to the applicant, the proposed project involves only the construction/relocation and replacement of the current emergency room at ROH. The proposed project does not involve the offering of new health care services and/or beds and therefore, the project is expected to have no adverse impact on existing facilities or services 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

According to the applicant, the project involves the addition of 33 full-time equivalent personnel at an estimated annual cost of \$1,583,000. The applicant states that any additional personnel needed would be recruited in River Oaks Hospital's traditional methods of advertising, word-of-mouth, or job fairs.

GR Criterion 10 – Relationship to Ancillary or Support Services

The applicant asserts that ROH provides all necessary support and ancillary services for the emergency room in its current location and will continue to provide these services at levels appropriate to the demands of the replaced and relocated emergency room.

GR Criterion 14 - Construction Projects

The application contains a cost estimate prepared by HHCP Architects, P.A., Florida, and a schematic drawing of the proposed project.

As previously mentioned, the proposed project involves new construction of 11,997 square feet of space, at an estimated cost of \$320 per square foot for new construction (see Attachment 2). The *Means Construction Cost Data, 2009 (MCCD)*, lists the costs for hospital construction to range from \$185 to \$315 per square foot. The proposed project's new construction cost per square foot is above the high range for hospitals as listed in *MCCD 2009*.

According to the applicant, HHCP Architects P.A. determined that the costs are within the normal range to be expected in the Mississippi area, particularly given the amount of demolition of existing structures (parking slab on grade, floor slab on grade, concrete encasement of structural steel columns, ductwork, plumbing, lighting, fire sprinklers, etc.) involved, and the lack of economy of scale for the smaller scale like this one. HHCP Architects further assert that the project includes a concentration of complex medical equipment, with required supports, shielding, and utilities, as well as requirements for installation of high tech communication, monitoring, and imaging/diagnostic equipment.

GR Criterion 16 - Quality of Care

River Oaks 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. River Oaks 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:

	Item	Cost	Percent of Total
a.	Construction Cost -- New	\$3,844,750	47.66
b.	Renovation Cost	0	0
c.	Capital Improvements	0	0
d.	Total Fixed Equipment Cost	0	0
e.	Total Non-Fixed Equipment Cost	4,222,305	52.34
f.	Land Cost	0	0
g.	Site Preparation Cost	0	0
h.	Fees (Architectural, Consultant, etc.)	0	0
i.	Contingency Reserve	0	0
j.	Capitalized Interest	0	0
k.	Other	0	0
	Total Proposed Capital Expenditure	\$8,067,055	100.00

The above capital expenditure is proposed for construction/replacement and relocation of an emergency room at ROH. The proposed project involves 11,997 square feet of new space at an estimated cost of \$320.48 per square foot (see Attachment 2). The *Means Construction Cost Data, 2009 (MCCD)*, lists the costs for hospital construction to range from \$185 to \$315 per square foot. The proposed project's new construction cost per square foot is above the high range for hospitals as listed in *MCCD 2009*.

B. Method of Financing

The applicant proposes to fund the project from cash as an inter-company transfer provided by the hospital's parent company, Health Management Associates, Inc. (HMA).

The application contains a letter signed by River Oaks Hospital, LLC's chief financial officer attesting to the hospital's and its parent company's ability to service the anticipated debt from operations and cash reserves without a negative effect on present and future operations.

C. Effect on Operating Cost

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

C. Cost to Medicaid/Medicare

Patient Mix by Type Payer	Utilization Percentage	First Year Revenue
Medicaid	31	\$2,361,394
Medicare	15	\$1,142,610
Other	<u>54</u>	<u>\$4,113,398</u>
TOTAL	<u>100</u>	<u>\$7,617,402</u>

River Oaks Hospital projects 3.9 percent of gross revenue for medically indigent patients and 3.0 percent for bad debt patients.

V. **RECOMMENDATIONS OF OTHER AFFECTED AGENCIES**

The Division of Medicaid estimates that the increased annual cost to Medicaid for the proposed project will be \$163,988 in inpatient services, and that outpatient services will be paid as outlined in the *Medicaid State Plan*.

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 2009 State Health Plan*; the *Mississippi Certificate of Need Review Manual, Revised 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 River Oaks Hospital, LLC d/b/a River Oaks Hospital for construction/replacement and relocation of an emergency room.

Attachment 1
 River Oaks Hospital
 Three-Year Operating Statement (Project Only)

	Year 1	Year 2	Year 3
Revenue			
Patient Revenue:			
Inpatient	\$5,420,175	\$6,233,831	\$6,109,154
Outpatient	\$2,197,227	\$2,604,375	\$2,673,300
Gross Patient Revenue	\$7,617,402	\$8,838,206	\$8,782,454
Charity Care	\$282,724	\$353,528	\$439,123
Deductions from Revenue	\$5,746,998	\$6,710,877	\$6,555,245
Net Patient Revenue	\$1,587,680	\$1,773,801	\$1,788,086
Expenses			
Operating Expenses:			
Salaries	\$ 428,674	\$487,795	\$ 491,724
Benefits	94,308	107,315	108,179
Supplies	190,522	283,808	286,094
Services	153,500	158,105	162,848
Lease	0	0	0
Depreciation	655,950	655,950	655,950
Interest	0	0	0
Other	13,718	14,130	14,553
Total Expenses	\$ 1,536,672	\$ 1,707,103	\$ 1,719,348
Net Income (Loss)	\$ 51,009	\$ 66,698	\$ 68,738
Assumptions			
Inpatient days	760	833	777
Outpatient days	1,044	1,125	1,050
Procedures	57	62	58
Charge per outpatient day	\$2,105	\$2,315	\$2,546
Charge per inpatient day	\$7,132	\$7,484	\$7,862
Charge per procedure	\$133,639	\$142,552	\$151,422
Cost per inpatient day	\$2,022	\$2,049	\$2,213
Cost per outpatient day	\$1,472	\$1,517	\$1,637
Cost per procedure	\$26,959	\$27,534	\$29,644

**Attachment 2
 River Oaks Hospital
 HG-RLS-0209-006
 Computation of New Construction Cost***

<u>Cost Component</u>	<u>Total</u>	<u>New Construction</u>
New Construction Cost	\$3,844,750	\$3,844,750
Renovation Cost	0	0
Total Fixed Equipment Cost	0	0
Total Non-Fixed Equipment Cost	\$4,222,0305	0
Land Cost	0	0
Site Preparation Cost	0	0
Fees (Architectural, Consultant, etc.)	0	0
Contingency Reserve	0	0
Capitalized Interest	0	0
Other (Furnishings, minor equipment)	0	0
Total Proposed Capital Expenditure	<u>\$8,067,055</u>	<u>\$3,844,750</u>
Square Footage	11,997	11,997
Allocation Percent		100%
Costs Less Land, Non-Fixed Eqt. & Other	\$3,844,750	\$3,844,750
Cost Per Square Foot	\$320.48	\$320.48

*Source: Certificate of Need Review Manual, 2008 Revised