

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

**CON REVIEW: HG-CO-0210-008
RIVER OAKS HOSPITAL, LLC
COST OVERRUN TO CON # R-0632
(ADDITION OF 48 ACUTE CARE BEDS AND RELOCATION OF 33 BEDS)
ORIGINAL CAPITAL EXPENDITURE: \$11,299,902
ADDITIONAL CAPITAL EXPENDITURE: \$6,608,422
TOTAL CAPITAL EXPENDITURE: \$17,908,324
LOCATION: FLOWOOD, RANKIN COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

River Oaks Hospital (River Oaks) is a 110-bed short term, acute care hospital, owned and operated by Health Management Associates, Inc. The hospital is governed by a seven-member Board of Trustees.

The occupancy rates, average lengths of stay (ALOS), and the Medicaid utilization rates for River Oaks Hospital are as follows for the years 2006 through 2008:

**River Oaks Hospital
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2006	75.02	3.93	22.01
2007	72.12	3.80	26.57
2008	69.34	3.79	24.70

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

B. Project Background

River Oaks Hospital obtained Certificate of Need No. R-0632, with an effective date of January 29, 2004, and an expiration date of January 29, 2005. River Oaks Hospital was approved for a six-month extension on CON No. R-0632. The extension period will terminate July 29, 2010.

The original project involved the addition of 90 acute care beds to its licensed capacity and for the renovation of approximately 50,000 square feet of space currently utilized for physician offices. The applicant affirmed that the space will be configured for the establishment of two new acute care patient units, which will each consist of 33 new licensed acute care beds. In addition, the hospital will expand its neonatal intensive care unit through the addition of 20 new licensed

acute care beds. The facility will license 4 beds currently used for 23-hour care, as acute beds.

C. Project Description

River Oaks Hospital now requests Certificate of Need authority for a cost overrun to its CON No. R-0632. The applicant states that the original project bids were submitted in 2004. At the time CON No. R-0632 for the addition/relocation project was approved, the authorized capital expenditure would have been sufficient for the completion of the project. However, given the CON delays and time for construction, in order to complete the project as authorized, River Oaks needs an additional authorized capital expenditure. Since 2004, construction cost and labor have increased drastically. River Oaks Hospital asserts that the cost overrun is essential for the completion of the proposed project.

The applicant indicates that they reached what it determined to be a reasonable stopping point with this project so not as to leave any patient rooms incomplete. The applicant affirms that the only work remaining to fully complete the proposed project is the build out of the already constructed and shelled space to house the relocated beds. All other aspects of this project have been completed, thus the applicant estimates that CON No. R-0632 is 65% complete.

According to the applicant, the capital expenditure in the original CON is \$11,299,902 and the additional cost for this cost overrun proposal is \$6,608,422 resulting in a revised capital expenditure of approximately \$17,908,324 for the project. This cost overrun project does not change the scope of the project.

II. TYPE OF REVIEW REQUIRED

The original project was reviewed in accordance with Section 41-7-191, subparagraph (1) (c) and (j) of the Mississippi Code of the 1972 Annotated, as amended.

The State Health Officer reviews all projects for amendments and cost overrun in accordance with duly adopted procedures and standards of the Mississippi State Department of Health.

In accordance with Section 41-7-197(2) of the Mississippi Code of 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 7, 2010.

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

A. State Health Plan (SHP)

The original application was in substantial compliance with the overall objectives of the *Plan* in effect at the time of submission. The amendment/cost overrun project continues to be in compliance with the *State Health Plan*.

B. General Review (GR) Criteria

This project was in substantial compliance with the CON Review Manual in effect, FY 2000 Revision, at the time of original submission, and continues to be in substantial compliance with said criteria.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

	Original Approved Amount	Revised Amount	Increase/ (Decrease)
1. New Construction Cost	\$ 0	\$ 0	\$ 0
2. Construction/Renovation	\$3,998,296	\$7,286,831	\$3,288,535
3. Land	\$ 0	\$ 0	\$ 0
4. Site Work	\$ 0	\$ 0	\$ 0
5. Fixed Equipment (Includes MRI/CT/RF)	\$2,785,450	\$3,303,668	\$ 518,218
6. Non-Fixed Equipment	\$3,021,696	\$5,306,938	\$2,285,242
7. Contingency	\$ 538,091	\$ 702,518	\$ 164,427
8. Fees (Architectural, Consultant, etc)	\$ 956,369	\$1,308,369	\$ 352,000
9. Capitalized Interest	\$ 0	\$ 0	\$ 0
10. Capital Improvement	\$ 0	\$ 0	\$ 0
Total Capital Expenditure	\$11,299,902	17,908,324	\$6,608,422

As previously mentioned, the capital expenditure approved in the original CON is \$11,299,902 and the additional amount for this cost overrun proposal is \$6,608,422, resulting in a revised capital expenditure of approximately \$17,908,324 for the project. This cost overrun project does not change the scope of the project.

B. Method of Financing

The applicant intends to finance the proposed project from accumulated cash reserves.

C. Effect on Operating Cost

The One-Year Projected Operating Statement is presented in Attachment 1 of this staff analysis.

D. Cost to Medicaid/Medicare

According to the applicant, the impact of the project on third party payers is expected to be negligible.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this cost overrun application for comment. No comments have been received.

VI. CONCLUSION AND RECOMMENDATION

The original project was in substantial compliance with the overall criteria and standards of the *FY 2003 State Health Plan* in effect at the time the project was originally submitted; the *Mississippi Certificate of Need Review Manual, revised 2000*, and all adopted rules, procedures and plans of the Mississippi State Department of Health. This project continues to be in substantial compliance with all applicable rules, procedures and plans.

The Division of Health Planning and Resource Development recommends approval of this application submitted by River Oaks Hospital for a cost overrun for CON #R-0632 (Addition of 48 Acute Care Beds and Relocation of 33 Beds).

Attachment I

**River Oaks Hospital
 One-Year Operating Statement**

	<u>AMOUNT</u>
NUMBER OF OUTPATIENT TESTS	4,200
AVERAGE CHARGE PER UNIT	\$ 500
PATIENT REVENUE	\$2,100,000
REVENUE DEDUCTIONS:	
CONTRACTUAL ADJUSTMENTS	\$1,050,000
CHARITY	50,000
BAD DEBTS	162,000
OTHER	<u>\$ 103,000</u>
TOTAL DEDUCTIONS	\$1,365,000
NET REVENUE	735,000
OPERATING EXPENSES:	
SALARIES	195,000
BENEFITS	56,600
PROFESSIONAL FEES	7,400
SUPPLIES	6,200
UTILITIES	28,200
REPAIRS & MAINTENANCE	1,200
INSURANCE	1,200
OTHER EXPENSE	<u>1,000</u>
TOTAL OPERATING EXPENSES BEFORE DEPRECIATION	296,800
DEPRECIATION	<u>418,000</u>
TOTAL EXPENSES	\$ 714,800
NET OPERATING INCOME	\$ 20,200