

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
MAY 2010**

**CON REVIEW: HG-MOB-0310-012
SINGING RIVER HEALTH SYSTEM D/B/A
OCEAN SPRINGS HOSPITAL
CONSTRUCTION OF A MEDICAL OFFICE BUILDING
CAPITAL EXPENDITURE: \$6,192,711
LOCATION: GAUTIER, JACKSON COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Singing River Hospital System 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 not-for-profit institutions, publicly owned and operated by the citizens of Jackson County, Mississippi, and are governed by a nine-member Board of Trustees appointed by the Jackson County Board of Supervisors. Singing River Hospital System d/b/a Ocean Springs Hospital is accredited by the Joint Commission on Accreditation of Health care Organizations (JCAHO).

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

**Ocean Springs Hospital
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2006	70.93	4.47	11.61
2007	63.12	4.19	10.28
2008	64.80	4.39	9.27

Source: Division of Health Facilities Licensure and Certification, MSDH

B. Project Description

Singing River Hospital System d/b/a Ocean Springs Hospital (OSH) requests Certificate of Need (CON) authority to construct a 30,200 square-foot, two-floor MOB on an open site presently owned by Singing River Health Systems. The new MOB will be connected to an existing imaging center by a covered sidewalk. The project will involve both site demolition and new construction. The MOB will allow the hospital to bring its rehabilitation services together which are currently dispersed in various locations. According to the applicant, the MOB will be inhabited by neurology, neuro-surgery, pain management specialists and rehabilitation services with accompanying admissions personnel. The rehabilitation services will consume approximately 11,000 square feet of space with the rest going to physician specialties. All these services will be provided by

hospital system staff currently employed. No new service is proposed in this project.

The total proposed capital expenditure is \$6,192,711 and of that amount, approximately 80.74 percent for new construction, 8.07 percent for site preparation, 5.53 percent for fees (architectural, consultant, etc), and 5.66 percent for contingency reserve. The applicant proposes to finance this project from the hospital's cash reserves.

The applicant states that no new staff will be required in relation to the proposed project.

The applicant asserts that the anticipated date for obligation of the project's capital expenditure is July 21, 2010, and that the project is expected to be completed by January 31, 2012.

II. TYPE OF REVIEW REQUIRED

This project is reviewed in accordance with Section 41-7-191, subparagraph (1) (j) Mississippi Code 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 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 June 7, 2010.

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

A. State Health Plan (SHP)

The *FY 2010 Mississippi State Health Plan (FY 2010 MSHP)* contains criteria and standards which the applicant is required to meet before receiving CON authority for construction, renovation, and the acquisition of major medical equipment. This application is in compliance with applicable criteria and standards.

SHP Criterion 1- Need

Ocean Springs Hospital proposes to construct a medical office building (MOB). The applicant asserts that the need for a MOB is warranted to provide effective efficient healthcare to its citizens. The applicant asserts that the medical office building will also allow the hospital to bring its rehabilitation services together which are currently dispersed in various locations.

SPH Criterion 2 - Bed Service Transfer/Reallocation/Relocation

This criterion is not applicable to the proposed project.

SHP Criterion 3 - Charity/Indigent Care

Ocean Springs Hospital asserts that as a not-for-profit hospital, this system is committed to servicing the indigent population and administering a significant

amount of charity care. Ocean Springs Hospital asserts that 3.42 percent of its gross patient revenue in 2009 was provided for charity care patients.

SHP Criterion 4 - Cost of Proposed Project

- a. **Cost per Square Foot:** The applicant states that the proposed project consists of approximately 30,200 square feet of new construction at \$205 per square feet. The RSMMeans Building Construction Cost Data, 2009 Edition states that the cost per square foot ranges from \$112 - \$169 for the construction of Medical Office Buildings.
- b. **Equipment Cost:** According to the applicant, no equipment is planned for the proposed facility.

SHP Criterion 5 - Floor Area and Space Requirements

- a. The applicant asserts that the gross square footage of the proposed project is 30,200. The applicant asserts that with the help of its architects, engineers and clinical staff it has systematically programmed each space so that the hospital could maximize space and that this project is programmed as efficiently as possible.
- b. The applicant asserts that the design and construction plans have taken the threat of tropical weather systems into consideration. However, the architectural design does not place material restraints on the proposed project.

SHP Criterion 6 – Cost of Proposed Renovation or Expansion Project

This project is for the construction of a medical office building. No renovation or expansion is required for this project.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, December 1, 2009 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

The applicant states that the planning process is ongoing and over the past year has continued to evolve into a plan that most effectively meets or exceeds the challenges of its healthcare facility. The proposed project represents an integral part of the organization's long range plan of delivering convenient, efficient and quality healthcare to its customers. The project will help the organization secure the services of primary care providers as well as specialists, for the communities.

GR Criterion 3- Availability of Alternatives

According to the applicant, only one other alternative was considered to leave each service where it is currently located. This alternative was not chosen because it has no advantage and it doesn't meet the future needs of the hospital's customers. The hospital currently leases spaces for each of the

services and can not renovate and relocate the spaces, and currently does not own any facilities that could be upgraded to accommodate these services altogether.

The applicant concluded that the proposed project is the option that will benefit its health care system in two important ways: it enables the facility to locate these specific services together and at the same time; locate them conveniently to other ancillary and support services.

GR Criterion 4 - Economic Viability

Based on the applicant's three-year projections for the entire facility, Ocean Springs Hospital will realize net operating income of \$3,845,391 the first year, \$4,268,825 the second year, and \$4,709,874 during the third year of operation.

According to the applicant, depreciation will be the only expense for the first three years of operation for the proposed project.

The proposed project is for the construction of a medical office building; therefore, no levels of utilization are required. The medical office building will be intended for recruiting existing and new physicians in the proposed area.

The application contained a letter signed by the hospital's chief financial officer asserting that the project is financially feasible.

GR Criterion 5 - Need for the Project

Ocean Springs Hospital asserts that by working with a team of architects, Board of Trustees, and management team, the organization has developed a long-term plan designed to alleviate the lack of medical office space in the nearby community and by doing this the hospital would be able to offer its community better access to healthcare. The lack of sufficient office space tends to handicap provider recruitment and causes unnecessary travel for the hospital's patients.

The applicant indicates that by using proprietary data, Ocean Springs Hospital's demand for office visits to neurology specialists in its market area and not the overall service area is well over 10,000 visits per year. Historically, the hospital serves roughly 60 percent of these visits.

According to Ocean Springs Hospital, access to the MOB will be open and convenient for all customers. To ensure low income persons, minorities, handicapped persons and the elderly have access to this facility and the services within, Ocean Springs Hospital offers free transportation services to and from the patient home to the facility.

Ocean Springs Hospital believes that if the MOB is not developed, the hospital will face difficulties in the future as it strives to serve the community. Patients will not benefit from having a centralized neuro-sciences location.

The application contains one letter of support.

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

GR Criterion 6 – Access to the Facility or Services

Ocean Springs Hospital states that access to the facility will be open and convenient for all customers. To ensure low income persons, minorities, handicapped persons, and the elderly have access to this facility and the services within, Ocean Springs Hospital offers free transportation service to and from the patient home to the facility. However, Ocean Springs Hospital is not seeking to add services, it will expand existing services.

The MOB will be conveniently located adjacent to Highway 90 in Ocean Springs. Patients will be able to access the MOB from the service road that runs parallel with Highway 90. The health systems will provide free transportation services to and from the MOB by request.

The medical office building will tentatively operate from 8:00 a.m. to 5:00 p.m. Monday through Friday with other hours as needed.

GR Criterion 7- Information Requirement

Singing River Hospital Systems d/b/a Ocean Springs Hospital indicates that it currently maintains detailed records pertaining to medically indigent care and it will continue to record and maintain the information required by this criterion and shall make the data available to the Mississippi State Department of Health within fifteen (15) business days of request.

GR Criterion 8 - Relationship to Existing Health Care System

Ocean Springs Hospital asserts that there are currently several neurologists within its service area that serve a population with essentially no noticeable differences in their makeup. However, these physicians are not located within the county. With Ocean Springs Hospital's physicians and outpatient rehabilitation services located in a convenient location, the hospital can offer a better continuum of care. The patients will benefit from the close proximity of the Ocean Springs Medical Park which is a three story MOB housing radiology, cardiology, oncology, and laboratory services. The applicant suggests that it is the intent of these physicians to treat neurological issues within the general public.

GR Criterion 9 - Availability of Resources

According to the applicant, no new personnel will be needed for the MOB. The applicant asserts that it is currently staffed with the physicians and other personnel that are needed for this MOB.

GR Criterion 10 - Relationship to Ancillary or Support Services

The applicant asserts that all personnel are currently on staff and operating and no operational changes in cost or charges are expected due to this project.

GR Criterion 11- Health Professional Training Programs

Since the proposed project is for the construction of an MOB, the applicant does not anticipate there to be any material impact on training programs in its service area.

GR Criterion 12- Access by Health Professional Schools

The applicant states that Ocean Springs Hospital participates in health training programs for nurses, aides, phlebotomists and radiology technologist. The proposed project will not effect this commitment.

GR Criterion 14 - Construction Projects

- a. **Cost Estimate:** The application contains a cost estimate prepared by Hardy and Associates/Architect, PLLC, Byram, Mississippi.
- b. **Schematic Drawing:** The application contains a schematic drawing of the proposed construction project.
- c. **Space Allocations:** The applicant states that the project will comply with state and local building codes, zoning ordinances, and all appropriate regulatory authorities. The applicant provided written assurance that the facility will comply with state statutes and regulations for the protection of the environment.
- d. **New Construction Projects:** This project involves the construction of an MOB.

Cost per square foot: The applicant states that the proposed project consists of approximately 30,200 square feet of new construction at \$205 per square feet. The RSMeans Building Construction Cost Data, 2009 Edition, states that the cost per square foot ranges from \$112 - \$169 for the construction of Medical Office Buildings.

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:

	Item	Cost	Percentage of Total
a.	Construction Cost – New	\$ 5,000,000	80.74%
b.	Construction Cost – Renovation	\$ 0	0%
c.	Capital Improvements	\$ 0	0%
d.	Total Fixed Equipment Cost	\$ 0	0%
e.	Total Non-Fixed Equipment Cost	\$ 0	0%
f.	Land Cost	\$ 0	0%
g.	Site Preparation Cost	\$ 500,000	8.07%
h.	Fees (architectural, consulting, etc.)	\$ 342,711	5.53%
i.	Contingency Reserve	\$ 350,000	5.66%
j.	Capitalized Interest	\$ 0	0%
k.	Other (Personal Financing)	\$ 0	0%
	Total Proposed Capital Expenditure	\$ 6,192,711	100%

Singing River Hospital Systems d/b/a Ocean Springs Hospital proposes to construct a 30,200 square feet medical office building. The cost to construct the 30,200 square feet of space will be \$205 per square feet. The RSMMeans Building Construction Cost Data, 2009 Edition states that the cost per square foot ranges from \$112 - \$169 for the construction of Medical Office Buildings.

B. Method of Financing

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

C. Effect on Operating Cost

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

As previously mentioned, depreciation will be the only expense for the first three years of operation for the proposed project.

D. Cost to Medicaid/Medicare

According to the applicant, the proposed project is for the construction of an MOB and will not have a material impact on Medicaid or Medicare.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for comment. The Division of Medicaid opposes this project.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the criteria and standards for construction, renovation, and expansion projects as contained in the *2010 Mississippi State Health Plan*; Chapter 8 of the *Mississippi Certificate of Need Review Manual, December 1, 2009, Revised*; and all 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 Health System d/b/a Ocean Springs Hospital for the construction of a medical office building.

**Singing River Health System
 d/b/a Ocean Springs Hospital**

**Three-Year Operating Statement for Entire Hospital
 Attachment I**

	Year 1	Year 2	Year 3
Revenue			
Inpatient Care Revenue	\$288,965,852	\$300,524,486	\$312,545,466
Outpatient Revenue	\$297,271,960	\$309,162,838	\$321,529,352
Gross Patient Revenue	\$586,237,812	\$609,687,325	\$634,074,818
Charity	\$4,129,004	\$4,294,164	\$4,465,931
Deductions from Revenue	\$441,411,733	\$459,068,202	\$477,430,930
Net Patient Care Revenue	\$140,697,075	\$146,324,958	\$152,177,956
Other Operating Revenue	\$4,820,155	\$4,964,760	\$5,113,702
Total Operating Revenue	\$ 145,517,230	\$ 151,289,717	\$ 157,291,659
Operating Expenses			
Salaries	\$55,681,149	\$57,629,990	\$59,647,039
Benefits	15,033,910	15,560,097	16,104,701
Supplies	31,667,021	33,250,372	34,912,891
Services	6,312,288	6,501,657	6,696,706
Lease Expenses	-	-	-
Depreciation	6,918,969	7,257,177	7,612,295
Interest	310,915	301,588	292,540
Other	25,747,585	26,520,012	27,315,613
Total Operating Expenses	\$141,671,838	\$147,020,893	\$152,581,785
Net Operating Income	\$ 3,845,391	\$4,268,825	\$4,709,874
	Proposed Year 1	Proposed Year 2	Proposed Year 3
Inpatient days	33,402	33,468	33,535
Outpatient days	2,914	2,920	2,925
Charge per inpatient day	8,651	8,979	9,320
Charge per outpatient day	102,022	105,891	109,906
Cost per inpatient day	4,241	4,393	4,550
Cost per outpatient day	48,621	50,356	52,156