

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
SEPTEMBER 2011**

**CON REVIEW HG-RC-0611-013
MEMORIAL HOSPITAL AT GULFPORT
NEONATAL INTENSIVE CARE UNIT EXPANSION
CAPITAL EXPENDITURE: \$6,663,350
LOCATION: GULFPORT, HARRISON COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Memorial Hospital at Gulfport (“Memorial” or the “Hospital”) is a nonprofit, 445-bed community hospital owned by the City of Gulfport and the Gulfport-West Harrison County Hospital District. The hospital is governed by a seven-member Board of Trustees. The Hospital is accredited by the Joint Commission on the Accreditation of Healthcare Organizations also known as JCAHO and licensed by the Mississippi State Department of Health (MSDH). Memorial is currently licensed to operate a total of 445 beds.

The occupancy rates, average lengths of stay (ALOS), and the Medicaid utilization rates for Memorial are as follows:

**Memorial Hospital at Gulfport
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2008	66.99	5.22	19%
2009	59.15	4.94	N/A
2010	60.24	4.88	23%

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

B. Project Description

Memorial Hospital at Gulfport requests Certificate of Need (CON) authority for the expansion and renovation of its Neonatal Intensive Care Unit (NICU). Memorial Hospital asserts that the proposed NICU project will expand capacity by adding five beds and reconfigure the existing space in order to achieve a state of the art NICU. The Hospital further asserts that the current NICU at Memorial was built in 1996, licensed to operate 18-beds in an open ward manner, and has not been significantly

modernized since its original construction. According to the applicant, the Hospital seeks to upgrade its NICU to comply with the most currently accepted standard of care for Neonatal Intensive Care Units with respect to size, design, equipment, and technology.

The applicant indicates that the scope of the proposed project involves 21,622 square feet of space on the second floor of the Hospital. The new NICU will consist of 14,158 square feet, of which 3,430 square feet will be new construction, and 10,728 will be renovated space. The remaining 7,464 square feet of renovated space involves the relocation and reorganization of the well baby and transitional nursery areas; relocation of two post partum rooms; and the relocation and reorganization of Women's Services administrative and classroom space. As a result, the NICU will expand from its 18-bed open ward unit to a 23-room unit designed consistent with the single family room concept. The applicant plans to utilize two (2) of the rooms as isolation rooms, eleven (11) for single occupancy, and the remaining (10) ten will be designed to accommodate two neonates, when needed. Furthermore, the applicant's proposed location of the NICU is intended to meet the requirement of being located in close proximity to the labor and cesarean delivery rooms and easily accessible from the Hospital's ambulance entrance for transport. Additionally, the NICU will be located away from routine Hospital traffic; thus, easily accessible to family members of the sick baby.

Memorial Hospital asserts that with regard to design of the proposed NICU, Memorial Hospital at Gulfport intends to utilize a design encompassing the single family room concept. The applicant believes that the single family room design better allows the Hospital to provide family centered care which ensures that parents are co-providers and decision-making partners in their baby's care. The applicant further believes that this concept seeks to ensure that each encounter builds on the family's strengths so they may become nurturing caregivers. Also, by utilizing the single family room design it minimizes the separation of newborns and families as parents are not required to leave the unit when another baby needs immediate and critical care. According to the applicant, additional benefits of the single family room are enhanced privacy for breastfeeding mothers; acoustical absorption so that background and transient noises are within acceptable ranges; and more individualized temperature control provided within each room.

The total proposed capital expenditure is \$6,663,350, and of that amount, approximately 14.08 percent is for new construction, 39.77 percent is for renovation, 27.76 percent for non-fixed equipment, 5.25 percent for fixed equipment, 4.59 percent for fees (architectural, consultant, etc.), 0.15 percent for legal and accounting fees, 3.00 percent for other fees, and 5.39 percent for contingency reserve. The project is expected to result in an additional 4.0 FTE (Full-time equivalent employees) registered nurses at an annual additional cost of \$120,000 the first year of operation, \$130,000 the second year, and \$180,000 the third year. The applicant indicates the proposed capital expenditure will be funded from the

hospital's accumulated cash reserves. Memorial intends to obligate the capital expenditure by March 2012, with a completion date of March 2013.

The MSDH Division of Health Facilities Licensure and Certification has approved the site for the Neonatal Intensive Care Unit Expansion, as proposed.

II. TYPE OF REVIEW REQUIRED

This project is reviewed in accordance with Section 41-7-173, 41-7-191 (1)(c) and (1) (j), and 41-7-193 of the 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 October 3, 2011.

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

A. State Health Plan (SHP)

The *FY2011 State Health Plan* contains criteria and standards which the applicant is required to meet before receiving CON authority for construction, renovation, and expansion. This application is in substantial compliance with the overall objectives of the *Plan*.

Neonatal special care services are reviewable under Certificate of Need when either the establishment or expansion of the services involves a capital expenditure in excess of \$2,000,000 and/or the addition or conversion of beds.

Those facilities desiring to provide neonatal special care services shall meet the capacity and levels of neonatal care for the specified facility (Specialty or Subspecialty) as recommended by the American Academy of Pediatrics, Policy Statement, Levels of Neonatal Care (PEDIATRICS Vol. 114 No. 5 November 2004).

Projects for existing providers of neonatal special care services which seek to expand capacity by the addition or conversion of neonatal special care beds: The applicant shall document the need for the proposed project. The applicant shall demonstrate that the facility in question has maintained an occupancy rate for neonatal special care services of at least 70 percent for the most recent two years or 80 percent neonatal special care services occupancy rate for the most recent year, notwithstanding the neonatal special care bed need outlined in Table 4-4 in the Plan.

The applicant may be approved for such additional or conversion of neonatal special care beds to meet projected demand balanced with optimum utilization rate for the Perinatal Planning Area.

SHP Criterion 1 – Need

The proposed project requests approval of a Certificate of Need to be issued to Memorial Hospital at Gulfport for a construction/renovation/expansion project involving its NICU. Components of this construction/renovation and expansion project involve the addition of 5 beds and the reconfiguration of the existing NICU space.

Memorial Hospital contends that for the most recent two fiscal years, ending on September 30, 2010, the Hospital's NICU maintained an occupancy rate of 71%. Additionally, the applicant documents that for the two year period June 2009 to May 2011, Memorial maintained an occupancy rate of 70.8%.

The applicant states that the utilization rate coupled with being the sole provider of Level 3 Sub-Specialty Neonatal Services on the Gulf Coast and in Perinatal Planning Area IX, it is imperative that Memorial Hospital at Gulfport provide an appropriate level of NICU services to the residents of its region. The applicant further states that Memorial's NICU currently provides NICU services to five medical centers in three counties. Further, as a community hospital, Memorial provides essential medical care to the medically underserved population of the service area. Therefore, the applicant believes additional NICU capacity is needed for the appropriate delivery of neonatal intensive care services for the entire Gulf Coast region.

SHP Criterion 2 – Dedicated Neonatal Special Care Unit Beds

The applicant contends that the existing NICU at Memorial meets this criterion. Memorial's current Neonatal Intensive Care Unit is licensed to operate 18 beds. Thus, this CON application seeks to add 5 beds and replace the 18-bed open ward unit with 23 single family rooms.

SHP Criterion 3 – Normal Driving Time

The applicant certified that services will be available to 95% of the population within one hour normal driving time in rural areas and within 30 minutes normal driving time in urban areas.

SHP Criterion 4 – Protocols

The applicant affirmed that Memorial Hospital at Gulfport is the only Level 3 Sub-Specialty Neonatal Service provider on the Gulf Coast and in PPA IX. The Hospital has established referral networks to transfer infants requiring more sophisticated

care, if required. According to the applicant, transfer agreements are currently in place with the following facilities: University of South Alabama Medical Center, Ochsner Medical Center, and Tulane University Hospital.

SHP Criterion 5 – Information Requirement

Memorial assures that all information and data required by this criterion will be made available to the Mississippi State Department of Health within the expected time frame.

SHP Criterion 6 – Admission Policies

Memorial confirmed that the facility does not have policies or procedures which would exclude patients because of race, age, sex, ethnicity, or ability to pay.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, Revised May 1, 2010*; addresses general criteria by which all CON applications are reviewed. This application is in substantial compliance with general review criteria contained in the manual.

GR Criterion 1- Consistency with the *State Health Plan*

The project is in substantial compliance with all criteria, standards, and policies of the *FY 2011 Mississippi State Health Plan* applicable to the expansion of Neonatal Special Care Services.

GR Criterion 2 – Long Range Plan

The applicant states that the long range goal of the Hospital is to provide high quality facilities and services to patients seeking health care services at Memorial Hospital as Gulfport in consistent with this CON proposal. As previously stated, Memorial believes that the proposed expansion and renovation of neonatal intensive care services at the Hospital will significantly enhance the patient care provided to families of the Gulf Coast region and Perinatal Planning Area IX.

GR Criterion 3 – Availability of Alternatives

According to the applicant, the Hospital could have chosen not to expand or renovate space for the purpose of improving the neonatal intensive care services at the Hospital. However, if this alternative were chosen, patients would continue to experience disruption in services resulting from operational inefficiencies and space configurations not conducive to the efficient delivery of patient care.

The applicant believes the best solution is the proposed project which fosters improvements in the delivery of health care services and cost effectiveness by renovating space where appropriate and expanding only that space needed for the appropriate delivery of neonatal intensive care services.

GR Criterion 4 - Economic Viability

Based on the applicant's financial projections, the operations of this project appears to result in a net gain of \$587,000 the first year, \$647,500 the second year, and \$668,000 the third year after completion of the project. Therefore, the economic viability appears to be good.

The application contained a letter from the hospital's financial analyst attesting to the financial feasibility of the project.

GR Criterion 5 - Need for the Project

- a. **Access by Population Served:** The applicant indicates that the service is available to all residents of the service area, including low income persons, racial, and ethnic minorities, women, handicapped persons, the elderly, and other underserved groups.
- b. **Relocation of Services:** This application does not propose the relocation of services. Memorial proposes to expand its NICU bed capacity by 5-beds.
- c. **Current and Projected Utilization of Like Facilities in the Area:** No additional services are being proposed.
- d. **Probable Effect on Existing Facilities in the Area:** The project proposes expansion and renovation of the neonatal intensive care unit at Memorial Hospital at Gulfport. No new services are being proposed by the applicant. Therefore, no significant effect is anticipated on existing facilities in the area.
- e. **Community Reaction:** The application contains five (5) letters of support from the citizens of the community. No letters of opposition were received in the department from the community.

GR Criterion 6 - Access to the Facility or Service

- a. **Medically Underserved Population:** Memorial affirmed that all residents of the health planning 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 facilities and will continue to have access to the Hospital. The applicant proposes to provide 3% of gross revenue the first year, or

\$38,375,500, and 3% the second year, \$39,527,000, to care for the medically indigent patients. The Hospital operates 7 days per week, 24 hours per day, and 365 days per year. Memorial is accessible to the public via U.S. Highway 90 and 49. The transportation and travel time to the facility will not change because this proposed project will be at the existing hospital.

- b. **Performance in Meeting Federal Obligations:** The applicant submits that Memorial has no obligations under federal regulations requiring uncompensated care, community service, or access by minority/handicapped persons.
- c. **Unmet Needs to be Served by Applicant:** The applicant submits that Memorial is a community “safety net” hospital which has consistently served a large number of Medicare, Medicaid, and medically indigent patients. According to the applicant, this project will improve access by medically underserved groups through an increased capacity of NICU beds and services.

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

Memorial asserts that the proposed project will complement the existing health care facilities and services offered within the service area without adverse impact.

The applicant believes that once the proposed project is completed it will allow the Hospital to continue providing much needed neonatal intensive care services to patients of the service area. The applicant states that if the proposed project is not implemented, there will be a continuing risk that Memorial will not be able to accommodate patients and facilities in need of NICU care.

Because no new services will be offered as a result of this project, staff concludes that this project would have no adverse affect on other providers in the referenced service area.

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

GR Criterion 9 - Availability of Resources

The applicant states that Memorial has demonstrated a satisfactory staffing history. The applicant projects four (4) additional full-time equivalent personnel at an

estimated annual cost of \$120,000 the first year of operation for this proposed project.

The applicant intends to recruit needed personnel from its present recruiting efforts and affiliation arrangements.

GR Criterion 14 - Construction Projects

- a. **Cost Estimate:** The application contains a cost estimate prepared by Blitch Knevel Architects, a professional corporation, licensed to do business in Mississippi.
- b. **Schematic Drawing:** The application contains a schematic drawing of the proposed project.
- c. **Space Allocations:** The applicant submits that space will conform to applicable local and state licensing standards.
- d. **New Construction Projects:** This project involves new construction of 3,430 square feet of space and 18,192 square feet of renovated space.
- e. **Cost per Square Foot:** The applicant projects the project will cost \$406.40 per square foot for new construction and \$176.42 per square foot for renovation. Staff calculations are: \$320.55 per square foot for new construction and \$192.60 per square foot for renovation (see Attachment 2). The *Means Building Construction Cost Data, 2011, Edition*, lists new construction costs for hospitals ranging from \$184 (where 20% of projects cost less) to \$315 (where 25% of projects cost more) per square foot. This project slightly exceeds the high range for construction listed in this publication.

GR Criterion 16 - Quality of Care

Memorial Hospital at Gulfport 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 (\$)	Percent (%) of Total
a.	Construction Cost -- New	\$938,500	14.08
b.	Construction Cost -- Renovation	2,650,000	39.77
c.	Capital Improvements	0	0
d.	Total Fixed Equipment Cost	350,000	5.25
e.	Total Non-Fixed Equipment Cost	1,850,000	27.76
f.	Land Cost	0	0
g.	Site Preparation Cost	0	0
h.	Fees (Architectural, Consultant, etc.)	306,000	4.59
i.	Contingency Reserve	358,850	5.39
j.	Legal and accounting fees	10,000	0.15
k.	Other	200,000	3.00
	Total Proposed Capital Expenditure	\$6,663,350	*100.00

*Percent off due to rounding.

The above capital expenditure is proposed for construction and renovation of Memorial Hospital at Gulfport NICU expansion project. The proposed project involves approximately 3,430 square feet of new space at an estimated cost of \$320.55 per square foot and 18,192 square feet of renovation at an estimated cost of \$176.42 per square foot (see Attachment 2). The *Means Building Construction Cost Data, 2011 Edition*, lists the costs for hospital construction to range from \$184 to \$315 per square foot. The *Means Building Construction Cost Data* does not compare costs of renovation projects.

The application contains a letter signed by the Vice President of Finance with Memorial Hospital confirming the financial feasibility of the project.

B. Method of Financing

The applicant proposes to finance the proposed capital expenditure from accumulated cash reserves.

The applicant provided financial statements documenting the ability to fund the project.

C. Effect on Operating Cost

Memorial Hospital at Gulfport's three-year projected operating statement is presented at Attachment 1.

D. Cost to Medicaid/Medicare

The applicant's projection to third party payors is as follows:

Payor Mix	Utilization Percentage (%)	First Year Revenue (\$)
Medicare	-	\$ -
Medicaid	74	1,905,000
Commercial	12	319,000
Self Pay	1	37,000
Other	13	330,000
Total	100	\$ 2,591,000

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for review and comment; however, no comments were received prior to posting of the staff analysis.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the criteria and standards for the expansion of Neonatal Special Care Services as contained in the *FY 2011 Mississippi State Health Plan*; the *Mississippi Certificate of Need Review Manual, 2010 Revision*; 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 the application submitted by Memorial Hospital at Gulfport for its Neonatal Intensive Care Unit Expansion project.

Attachment 1

Memorial Hospital at Gulfport Three-Year Operating Statement (Project Only)			
	Year 1	Year 2	Year 3
Revenue			
Patient Revenue:			
Inpatient	\$ 2,591,000	\$ 2,851,000	\$ 3,136,000
Outpatient			
Gross Patient Revenue	\$ 2,591,000	\$ 2,851,000	\$ 3,136,000
Charity Care			
Deductions from Revenue	<u>1,845,000</u>	<u>2,030,000</u>	<u>2,232,000</u>
Net Patient Revenue	746,000	821,000	904,000
Expenses			
Operating Expenses:			
Salaries	\$ 120,000	\$ 130,000	\$ 180,000
Benefits	24,000	26,000	36,000
Supplies	15,000	17,500	20,000
Services			
Lease			
Depreciation			
Interest			
Other			
Total Expenses	\$ 159,000	\$ 173,500	\$ 236,000
Net Income (Loss)	\$ 587,000	\$ 647,500	\$ 668,000
Assumptions			
Inpatient days	479	527	638
Outpatient days			
Procedures			
Charge per outpatient day			
Charge per inpatient day	\$ 5,409	\$ 5,410	\$ 4,915
Charge per procedure			
Cost per inpatient day	\$ 332	\$ 329	\$ 370
Cost per outpatient day			
Cost per procedure			

**Memorial Hospital at Gulfport
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 Attachment 2**

Computation of Construction and Renovation Cost

	Cost Component	Total	New Construction	Renovation
A	New Construction Cost	\$938,500	\$938,500	
B	Renovation Cost	\$2,650,000		\$2,650,000
C	Total Fixed Equipment Cost	\$350,000	\$55,522	\$294,478
	Total Non-Fixed Equipment Cost	\$1,850,000		
	Land Cost	\$0	\$0	
D	Site Preparation Cost	\$0	\$0	
E	<i>Fees (Architectural, Consultant, etc.)</i>	\$306,000	\$48,542	\$257,458
F	<i>Contingency Reserve</i>	\$358,850	\$56,926	\$301,924
G	<i>Capitalized Interest</i>	\$0	\$0	\$0
	<i>Other</i>	\$210,000	\$0	
	Total Proposed Capital Expenditure	\$6,663,350	\$1,099,490	\$3,503,860
	Square Footage	21,622	3,430	18,192
	<i>Allocation Percent</i>		15.86%	84.14%
	Costs Less Land, Non-Fixed Eqt., Other	\$4,813,350	\$1,099,490	\$3,503,860
	Cost Per Square Foot	\$222.61	\$320.55	\$192.60

Source: FY 2011 Mississippi State Health Plan