

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
JUNE 2012**

**CON REVIEW: HG-A-0312-009
SINGING RIVER HEALTH SYSTEM D/B/A SINGING RIVER HOSPITAL
AMENDMENT AND COST OVERRUN TO CON NO. R-0781
(ELECTRICAL SERVICES UPGRADE) AND
CON NO. R-0795 (MODULAR CHILLER PLANT AND
PIPE BRIDGE PROJECT/CONSTRUCTION)
APPROVED CAPITAL EXPENDITURE: \$7,879,358
ADDITIONAL CAPITAL EXPENDITURE: \$3,351,132
REVISED CAPITAL EXPENDITURE: \$11,230,490
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 three years:

**Singing River Hospital
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2009	24.60	4.09	15%
2010	24.63	3.82	16%
2011	23.83	3.83	16%

Source: Division of Health Facilities Licensure and Certification, MSDH

B. Project Background

Singing River Hospital received Certificate of Need (CON) No. R-0781 effective December 18, 2008, and an expiration date of December 18, 2009 for its construction/electrical services upgrade project.

The original project for CON No. R-0781 consisted of replacing and upgrading the capacity of the facility's two existing generators and the new construction of a 2,450 square foot electrical room that would be elevated 20 feet above grade and 35 – 40 feet above sea level.

Prior to the expiration date of the CON SRH applied for and received six extensions; therefore, the CON is currently in active status. The estimated capital expenditure was \$4,383,032 and funding for the project was through the hospital's accumulated cash reserves. The project required no new personnel and site approval was granted by the Division of Licensure and Certification.

Additionally, Singing River Hospital obtained CON No. R-0795 effective September 24, 2009, and an expiration date of September 24, 2010 for its modular chiller plant and pipe bridge project. Prior to the expiration of the CON SRH applied for and received four extensions on this project. As a result, the CON is currently active until September 24, 2012. The estimated capital expenditure was \$3,496,326 which was to be funded by the hospital's accumulated cash reserves. Additionally, the project required no new personnel and the site was found to be acceptable for the stated purpose by the Division of Licensure and Certification.

The original project for CON No. R-0795 involved 13,450 square feet of new construction, the demolition of one bay of the existing warehouse in order to install the modular chillers and cooling towers. Also, the project involved the installation of a new foundation for the location of the chillers and cooling towers, installation of piping to connect to existing pipes.

The combined authorized capital expenditure for CON No. R-0781 and CON No. R-0795 is \$7,879,358. The applicant avows that the combined capital expenditure made to date is approximately \$2,006,808 and overall the projects are approximately 18 percent complete.

C. Project Description

SRH proposes to consolidate CON No. R-0781 and CON No. R-0795 and increase the total capital expenditure. The applicant proposes to do such by the submission of this application for a amendment/cost overrun. According to the applicant, SRH has been diligent in moving forward with planning and design for both CON projects. However, because the two projects are so interrelated it has

become difficult for the hospital to report on or discuss one project without the involvement of the other, according to the applicant. Therefore, the applicant now requests that the two projects be consolidated under a combined capital expenditure and one CON in order that they may be submitted for bids and implemented as one project.

According to the applicant, the total combined capital expenditure approved in the original CONs are \$7,879,358 and the additional costs for this amendment/cost overrun proposal are \$3,351,132, resulting in a revised capital expenditure of approximately \$11,230,490.

The applicant submits that the increase in construction cost is related to the redesign of the project which allows SRH to locate the chillers closer in proximity to the proposed electrical services upgrade and better accommodate for future expansions to the physical plant. In addition, the applicant states that the increased fees are also associated with the high cost for certain items since the original CON cost estimates were filed, such as steel, materials, and equipment. The applicant further states that the proposed overall square footage for new construction decreased from 15,900 square feet to 11,669 square feet. However, the requested increase in capital expenditure for the overall project allows SRH to purchase higher capacity chillers, reconfigure the pipe bridge for connection to the other portions of the facility, and to modify the fuel storage units.

The applicant asserts that the original submission included \$1,840,000 and \$1,030,532 of fixed equipment. Yet, the revised fixed equipment estimate is \$3,400,000 for an increase of \$529,468. The applicant attributes the change in fixed equipment cost is due to increase equipment costs since the initial cost estimates submitted in the original application. (see Attachment 1)

The applicant documents that this project is essential to better prepare Singing River Hospital for storm surge and potential flooding conditions. Furthermore, the project allows SRH to avoid overloads during backup operations in such extreme conditions and enhance current electrical service operations to meet health care and capacity standards for healthcare facilities.

Staff contends that this amendment/cost overrun project does not change the scope of the original project.

The Mississippi Department of Health, Division of Health Facilities Licensure and Certification, approved the original site for the proposed projects.

The applicant believes that efficiencies and coordination of work flow will be greatly enhanced by the consolidation of these projects, which should result in a shorter period of construction. Therefore, the applicant anticipates that the project will be completed within 18 months after commencement of construction.

II. TYPE OF REVIEW REQUIRED

The original projects was reviewed under the applicable statutory requirements of Section 41-7-191, subparagraph (1) (j), 41-7-793, and 41-7-195, Mississippi Code of 1972, as amended.

The State Health Officer reviews all projects for amendment and cost overruns in accordance with 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 or 1972 Annotated, as amended, any affected person may request a public hearing on this project within 20 days of publication of this staff analysis. The opportunity to request a hearing expires on June 27, 2012.

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

A. State Health Plan

The original projects were in substantial compliance with the *FY 2009 State Health Plan*, in effect at the time the original applications were submitted. This amendment and cost overrun project continues to be in substantial compliance with the *FY 2012 State Health Plan*.

B. General Review Criteria

The original projects were in substantial compliance with the *Certificate of Need Review Manual, 2008 revision*, in effect at the time of submission. This application continues to be in compliance with applicable general review criteria and standards contained in the *Certificate of Need Review Manual, 2011 revision*.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

	<u>Approved Capital Expenditure</u>	<u>Revised Capital Expenditure</u>	<u>Increase (Decrease)</u>
New Construction	\$1,403,525 2,705,000	\$6,230,490	\$2,121,965
Renovation/Construction	0	370,000	370,000
Capital Improvements	0	0	0
Land	0	0	0
Site Work	62,250	180,000	117,750
Fixed Equipment	1,840,000 1,030,532	3,400,000	529,468
Non-Fixed Equipment	0	0	0
Fees (Architectural, Consultant, etc)	117,262 295,000	650,000	237,738
Contingency Reserve	73,289 352,500	400,000	(25,789)
Capitalized Interest	0	0	0
Total	<u>\$7,879,358</u>	<u>\$11,230,490</u>	<u>\$3,351,132</u>

As previously mentioned, the capital expenditure approved in the original CONs were \$4,383,032 (construction/electrical services upgrade) and \$3,496,326 (modular chiller plant and pipe bridge project) and the additional costs for this amendment and cost overrun proposal are \$3,351,132, resulting in a revised capital expenditure of approximately \$11,230,490.

According to the applicant the increase in construction cost represents the redesign of the project to move the chillers closer in proximity to the proposed electrical services upgrade and allow for future capacity expansions. Also, increased fees are related to higher costs for certain items since the original CON cost estimates were filed, such as steel, materials, and equipment. Additionally, the applicant states that the planned overall square footage total for new construction has decreased from 15,900 square feet to 11,669 square feet. The applicant further states that the requested increase in capital expenditure for the overall project allows SRH to purchase higher capacity chillers, better accommodate for future expansions to the physical plant, reconfigure the pipe bridge for connection to the other portions of the facility, and modify the fuel storage units. Moreover, after the original CONs were issued, the Division of Licensure and Certification reviewed the designs and plans for the projects and noted a deficiency. Based on the deficiency SRH determined that renovations

were needed in order to meet the required life safety codes cited by the Department.

This amendment and cost overrun project does not change the scope of the original projects.

B. Method of Financing

The applicant asserts that the project will be finance through bond proceeds.

C. Effect on Operating Cost

According to the applicant, this project will not result in a change in the projected operating statement for the first year of operation after completion of the project.

D. Cost to Medicare/Medicaid

The applicant does not project an increase or decrease in operating cost as a result of this amendment and cost overrun project. However, the applicant submits that the project will result in a nominal increase in annual interest/expenses; but, will not have an impact on hospital charges or payments.

V. RECOMMENDATION OF OTHER AFFECTED AGENCIES

The Division of Medicaid estimates that approval of this application will increase annual cost to Medicaid by \$198,286 in inpatient hospital services and outpatient services will be paid as outlined in the Medicaid State Plan. The Division of Medicaid opposes this project.

VI. CONCLUSIONS AND RECOMMENDATION

This project continues to be in substantial compliance with the overall objectives of the *FY 2009 State Health Plan; Certificate of Need Review Manual, Revised 2008*; and all adopted rules, procedures, and plans of the Mississippi State Department of Health in effect at the time of approval.

The Division of Health Planning and Resource Development recommends approval of the application submitted by Singing River Health System d/b/a Singing River Hospital for an amendment and cost overrun to CON No. R-0781 (construction/electrical services upgrade) and CON No. R-0795 (modular chiller plant and pipe bridge project).

Attachment 1
 Computation of Construction and Renovation Cost*

	Cost Component	Total	New Construction	Renovation
A	New Construction Cost	\$6,230,490	\$6,230,490	
B	Renovation Construction Cost	\$370,000		\$370,000
C	Total Fixed Equipment Cost	\$3,400,000	\$2,817,259	\$582,741
	Total Non-Fixed Equipment Cost	\$0		
	Land Cost	\$0	\$0	
D	Site Preparation Cost	\$180,000	\$180,000	
E	Fees (Architectural, Consultant, etc.)	\$650,000	\$538,594	\$111,406
F	Contingency Reserve	\$400,000	\$331,442	\$68,558
G	Capitalized Interest	\$0	\$0	\$0
H	Capital Improvements	\$0	\$0	\$0
	Other	\$0	\$0	
	Total Proposed Capital Expenditure	\$11,230,490	\$10,097,785	\$1,132,705
	Square Footage	11,669	9,669	2,000
	Allocation Percent		82.86%	17.14%
	Costs Less Land, Non-Fixed Eqt., Other	\$11,230,490	\$10,097,785	\$1,132,705
	Cost Per Square Foot	\$962.42	\$1,044.35	\$566.35

*Source: Mississippi Certificate of Need Review Manual, Revised September 1, 2011.

The *RSMeans Building Construction Cost Data, 2012 Edition* states that the cost per square foot ranges from \$192 - \$325 for new construction. However, the *RSMeans Building Construction Cost Data* does not compare cost for renovation projects. Conversely, SRH submits that the cost per square foot for new construction as \$1,104.77 and \$274.25 for renovation costs. SRH asserts that the cost per square foot is high, resulting from fixed equipment cost and other costs allocated to such a relatively small area.