

**MISSISSIPPI STATE DEPARTMENT OF HEALTH  
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT  
DECEMBER 2015**

**CON REVIEW NUMBER: HG-A-0715-014  
SINGING RIVER HEALTH SYSTEM  
D/B/A OCEAN SPRINGS HOSPITAL  
AMENDMENT AND COST OVERRUN TO CON #R-0751 A  
(CON REVIEW HG-A-0311-005)  
CONSTRUCTION OF OBSERVATION UNITS & OUTPATIENT SERVICE IMPROVEMENTS  
ORIGINAL CAPITAL EXPENDITURE: \$15,364,109.00  
ADDITIONAL CAPITAL EXPENDITURE: \$8,629,792.00  
TOTAL REVISED CAPITAL EXPENDITURE: \$23,993,901.00  
LOCATION: OCEAN SPRINGS, JACKSON COUNTY, MISSISSIPPI**

**STAFF ANALYSIS**

**I. PROJECT SUMMARY**

**A. Applicant Information**

Singing River Health System (SRHS) is composed of Singing River Hospital (435 licensed beds) in Pascagoula, Mississippi and Ocean Springs Hospital (136 licensed beds) in Ocean Springs, Mississippi. Both hospitals are voluntary, not-for-profit institutions, publicly owned and operated by the citizens of Jackson County, Mississippi. SRHS is governed by a nine-member Board of Trustees appointed by the Jackson County Board of Supervisors. Members are appointed as representatives from each District, with two members being appointed from the county at-large. SRHS is fully accredited by the Joint Commission on Accreditation of Healthcare Organizations, has over 200 Physicians on its respective medical staffs and employs approximately 2,000 people; making it one of the largest health care systems in the state.

Ocean Springs Hospital is licensed for 136 beds. The occupancy rates, average length of stay (ALOS) and Medicaid utilization for the three most recent years are as follows for years 2012 through 2014:

<b>Fiscal Year</b>	<b>Occupancy Rate (%)</b>	<b>ALOS (Days)</b>	<b>Medicaid Utilization Rate (%)</b>
2012	70.48	4.32	14.44
2013	74.93	4.43	20.18
2014	63.32	4.38	21.52

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

**B. Project Background**

Singing River Health System d/b/a Ocean Springs Hospital was originally issued CON #R-0751, with an effective date of September 27, 2007, "for construction of observation unit and outpatient services improvements," with an extended expiration date of September 27, 2011, pursuant to an Attorney General's Opinion issued October 12, 2007, which led to the revision of the policy for CON extensions. The original project involved a total of 38,215 square feet of space,

to include 33,715 square feet of new construction and 4,500 square feet of renovated space. The project entails building a two-story addition to the current facility to provide physical space for the expansion of existing outpatient treatment services, a new 20-bed observation unit, physician offices, storage space and meeting and conference rooms. The applicant was originally approved for the proposed capital expenditure of \$13,879,110.

Furthermore, Singing River Health System d/b/a Ocean Springs Hospital (Ocean Springs Hospital) requested Certificate of Need authority for an amendment/cost overrun with an additional capital expenditure of \$1,484,999 to its CON #R-075. The capital expenditure approved in the original CON was \$13,879,110 and the additional requested for the amendment proposal was \$1,484,999, resulting in a revised capital expenditure of approximately \$15,364,109 for the previous project.

As a result of the previous proposed amendment project, the square footage for new construction increased from 33,715 to 49,067, an increase of 15,352 square feet; however, the square footage for renovation (4,500) remained the same. The amendment request allowed for a third floor shell to be added to the original project. The amendment/cost overrun was approved and the applicant was issued CON #0751-A with an effective date of June 30, 2011 and an expiration date of June 30, 2012.

Ocean Springs Hospital was approved for a six month extension on August 14, 2015 for CON #R-0751-A. The extension period will terminate on December 30, 2015; however, the applicant recently submitted a Six Month Extension/Progress Report (SME/PR) report on November 23, 2015. The SME/PR is pending for approval to extend CON R-0751-A.

Based on the submitted SME/PR approved on August 14, 2015 for Ocean Springs Hospital regarding CON #R-0751-A, the applicant stated that the proposed project was 100% complete (as of 9/18/2014) and services are currently being offered in the newly constructed space. The applicant also affirms that \$23,993,901 has been expended to date, a cost overrun of \$8,629,792 of the approved \$15,364,109 capital expenditure.

The applicant originally filed an Amendment/Cost Overrun application with the Department on July 27, 2015 for \$23,993,901. However, our staff could not conduct a preliminary technical review of the referenced application using the CON Substantive Review Form No. 807 E because an additional filing document was needed. The applicant submitted the filing document on October 5, 2015 and the proposed application was reviewed by staff and entered into the November 2015, Review Period.

**C. Project Description**

Singing River Health System d/b/a Ocean Springs Hospital now requests Certificate of Need authority for an amendment and cost overrun to its CON #R-0751-A. The previous approved capital expenditure is \$15,364,109 and the additional request for this amendment and cost overrun proposal is \$8,629,792 resulting in a revised capital expenditure of 23,993,901 for the proposed project. The applicant states that the capital expenditure made to date is \$23,993,901 and the proposed project is 100% complete.

Ocean Springs Hospital asserts that the proposed cost overrun was inevitable to complete the construction and renovation updates to Ocean Springs Hospital. According to the applicant, the proposed cost overrun is due to the increase in the capital expenditure related to the following:

- The applicant states that the Mississippi State Department of Health, Bureau of Licensure and Certification, after its review of the proposed construction design, required Ocean Springs Hospital to construct 2 hour fire walls in various locations, complete fire sprinkling of the First Floor of the existing hospital; and also require that the hospital provide a temporary galvanized steel exit stair tower to be used for life safety egress during construction. The applicant affirms that the proposed requirements were not anticipated as a part of the original project.
- The applicant suggests that a close review of the expenditures as outlined in the original CON Application indicated that the capital expenditure estimates did not include the full amount of the architectural and engineering (mechanical, electrical, civil engineering) professional services expense, which accounts for \$1,156,620 of the capital expenditure increase.
- The applicant affirms that the construction management fees were not included in the original CON application, which accounts for \$1,223,949 of the capital expenditure increase. The applicant further states that at the time of the submission of the original CON application, no capitalized interest was included. The design phases and actual construction period was not complete until the fall of 2014; the capitalized interest over that period of time was \$4,262,754.
- Provisions for temporary medical air locations and medical gas room were not contemplated in the original estimates for the proposed project. The routing of a chilled/hot water piping and electrical services over the existing roof in lieu of under the foundation of the new addition during construction was required; which included roofing, pipe work and conduit supports. The applicant states that patient safety and the hospital operations would have been adversely impacted; thus the piping and electrical services were re-routed to alleviate these risks.

- The wind requirements were revised from 145 mph to 180 mph.
- Computers and network wiring for the installation and operation of the electric medical records system (EPIC), which included computer mounts, system installation, and support systems. The applicant further states EPIC is now required by Federal regulations for all health care providers.
- Wireless clock systems, security system installation, test and balance systems, and additional concrete paving for patient access to the new addition resulted in an increased capital expenditure.
- The applicant affirms that new requirements for helicopter lighting and warnings were instituted since the original CON application approval; and due to the new requirements the close proximity of the helicopter pad to the building, additional unanticipated cost were incurred to comply with these requirements.
- Way-finding, signage, the cost to prepare a construction lay down area, offsite parking to minimize parking impact to patients and guest during the construction process also resulted in an increased capital expenditure.

The applicant affirms that there was no change in the overall design and layout of the Three-Story Addition (refer to CON Review # HG-A-0311-005); however, there were certain additions of square feet of new construction and renovation.

The applicant states that an enclosed corridor which connects the new building with the existing hospital was added for each floor, resulting in an additional 1,500 square feet of new construction on each floor (4,500 square feet total). Furthermore, in order to improve and increase the size of the Hospital's surgical support, 12,998 square feet of space in the existing Hospital was renovated to convert two former operating rooms, storage space, and other unused areas to an expanded surgical support area. This also entailed approximately 6,668 square feet of new construction on the First Floor of the addition.

The applicant affirms that the north end of the new addition was expanded in order to ensure that the relocated Congestive Health Clinic on the First Floor had easy patient access. The north end expansion incurred an increase in the footprint of the addition, which resulted in an increase of approximately 1,480 square feet on each of the three floors for a total of (4,441 square feet of total space on the three floors). The original plan anticipated approximately 3,000 square feet of space on the second floor of the addition, to be used as training space for nursing education, a community education and conference center. The applicant states that Ocean Springs Hospital subsequently identified a more preferable location for training/community education center. The applicant states that Ocean Springs Hospital built out the original area allocated instead of office space. The applicant suggests that the area has been designed and constructed so that in the future, if needed it can be built-out for clinical services or additional observation rooms.

The proposed amendment/cost overrun application contained a copy of the architect's revised cost estimate prepared by FoilWatt Architects & Planners, PLLC.

The applicant affirms that the additional capital expenditure in the amount of \$8,629,792 for the proposed project was financed through bond financing. The application contained a copy of the bond financing documentation for the proposed project.

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

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

## II. TYPE OF REVIEW REQUIRED

The original project was reviewed in accordance with Section 41-7-191, subparagraph (1) (j) of the Mississippi Code of the 1972 Annotated, as amended, and duly adopted rules, procedures, plans, criteria, and standards of the Mississippi State Department of Health. 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 January 11, 2016.

## 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 *FY 2007 Mississippi State Health Plan*, in effect at the time the original application was submitted. The amendment/cost overrun project continues to be in compliance with the *FY 2015 Mississippi State Health Plan*.

### B. General Review (GR) Criteria

The original project was in substantial compliance with the *Certificate of Need Review Manual in effect, FY 2006 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, September 1, 2011*.

**IV. FINANCIAL FEASIBILITY**

**A. Capital Expenditure Summary**

	Original Approved Amount	Revised Amount	Increase/ (Decrease)
1. New Construction Cost	\$ 11,154,497	\$ 13,672,224	\$ 2,517,727
2. Construction/Renovation	\$ 450,000	\$ 1,749,380	\$ 1,299,380
3. Land	\$ 0	\$ 0	\$ 0
4. Site Work	\$ 0	\$ 0	\$ 0
5. Fixed Equipment	\$ 0	\$ 0	\$ 0
6. Non-Fixed Equipment	\$ 1,328,000	\$ 650,023	\$ (677,977)
7. Contingency	\$ 1,067,661	\$ 0	\$ (1,067,661)
8. Fees (Architectural, Consultant, etc)	\$ 1,278,951	\$ 3,659,520	\$ 2,380,569
9. Capitalized Interest	\$ 0	\$ 4,262,754	\$ 4,262,754
10. Other Costs:	\$ 85,000	\$ 0	\$ (85,000)
<b>Total Capital Expenditure</b>	<b>\$15,364,109</b>	<b>\$23,993,901</b>	<b>\$8,629,792</b>

As previously mentioned, the original approved capital expenditure is \$15,364,109 and the additional request for this amendment and cost overrun proposal is \$8,629,792 resulting in a revised capital expenditure of 23,993,901 for the proposed project. The applicant states that the capital expenditure made to date is \$23,993,901 and the proposed project is 100% complete. The proposed cost overrun does not change the scope of the original project.

**B. Method of Financing**

According to the applicant, this amendment/cost overrun project was financed through bond financing.

**C. Effect on Operating Cost**

Ocean Springs Hospital asserts that the only effect on operating cost will be an increase of depreciation cost from \$384,102.73 (original) to \$599,847.53 an increase by \$215,744.80 as a result of the proposed cost overrun.

The applicant affirms that the following for the revised projected 1 year profit and loss for Singing River Health System d/b/a Ocean Springs Hospital:

<b>Projected 1 Year – Profit and Loss</b>	
Total Patient Revenue	\$19,784,156
Net Patient Revenue	\$ 3,858,215
Total Operating Revenue	\$ 6,519,169
Total Operating Expensed	\$ 6,145,946
Excess of Revenue Over Expenses from Operations	\$ 373,224

**D. Cost to Medicaid/Medicare**

The applicant suggests that Medicare and Medicaid reimbursement is not based directly on cost, and the additional capital expenditure associated with the proposed amendment/cost overrun will not result in a direct increase in cost to either program.

**V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES**

The Division of Medicaid was provided a copy of this application for comment. The Division of Medicaid states that as of September 1, 2012, the Division changed the methodology by which they reimburse outpatient services so that the cost incurred subsequent to that date will no longer affect outpatient payments.

The Division of Medicaid further states that effective October 1, 2012, the Division changed the methodology by which they reimburse inpatient services so that the cost incurred subsequent to that date will only affect outlier payments. The Division affirms that the estimated increase in cost outlier payments resulting from the proposed CON cannot be determined at this time. Therefore, the Division of Medicaid opposes the transaction of the proposed project.

**VI. CONCLUSION AND RECOMMENDATION**

The original application was in substantial compliance with the *FY 2007 Mississippi State Health Plan*, in effect at the time the original application was submitted; the *Mississippi Certificate of Need Review Manual, revised 2006*, and all adopted rules, procedures and plans of the Mississippi State Department of Health. The proposed amendment/cost overrun project continues to be in compliance with all applicable rules, procedures and plans in the *FY 2015 Mississippi State Health Plan*.

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 amendment and cost overrun to its CON # R-0751 A for the construction of observation units & outpatient service improvements.