

**DIVISION OF HEALTH PLANNING
AND RESOURCE DEVELOPMENT
MAY 2008**

**CON REVIEW: HG-MOB-0308-005
SINGING RIVER HOSPITAL SYSTEM d/b/a SINGING RIVER HOSPITAL
MEDICAL OFFICE BUILDING
CAPITAL EXPENDITURE: \$13,628,201
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 length of stay (ALOS), and Medicaid utilization for the three most recent years are as follows:

Fiscal Year	Occupancy Rate (%)	ALOS (DAYS)	Medicaid Utilization Rate
2004	33.16	5.26	17.64
2005	N/A	N/A	N/A
2006	25.59	4.51	16.38

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

B. Project Description

Singing River Hospital System d/b/a Singing River Hospital requests Certificate of Need (CON) authority to construct a three-story medical office building (MOB) adjacent to the existing hospital, on property currently owned by the hospital in Pascagoula, Mississippi. The medical office building will consist of approximately 54,812 square feet of new construction.

SRH hired Johnson Development to help facilitate the design and construction of the 54,812 square foot medical office building. The new construction will be a three-story MOB located on SRH campus. The structure will be steel framing consisting of wide flange columns and beams for floors and a bar joist roof. The footings, foundations and floor slabs will be reinforced concrete. The elevation of the first floor slab will be above any flood level as required. The exterior skin will consist of metal studs, masonry facing, energy insulation finish system and storefront. The roof will be a modified-bitumen on polyisocyanurate insulation over metal deck with internal roof drains. There will be site drainage/retention, landscaping and parking. The mechanical system will be a multiple split system DX equipment to maximize zone control. The building will be fully sprinkler equipped. The electrical system will be 480V service for the building with 277V for lighting and 480V for HVAC. Distribution for receptacles and general power will be 120V. Data and communication will be throughout the building using Cat 5E. Fire alarm system shall be installed as required.

The applicant intends to utilize the 54,812 square feet of space as follows: 26,000 square feet for rentable space, 6,000 square feet for a Neuro-Sciences Center, 13,000 square feet for radiology, and 5,500 square feet for physical, occupational and speech therapy. Thus, 4,312 square feet of the gross square footage will be consumed by non-inhabitable space.

The applicant states that the rentable space will be rented to local healthcare providers, as well as newly recruited providers. The applicant further states that the space will be rented to providers at \$18 per square foot with an escalation of three percent each subsequent year and expects to have an occupancy rate of 20% the first year, 80% the second year, and 100% the third year or a revenue stream of \$93,600, \$374,400, and \$468,000, the first, second, and third year, respectfully.

The applicant asserts that the space constructed and inhabited by the hospital will not, nor is it intended to directly produce rental revenue. The applicant provided a pro-forma with regard to the rentable space.

The applicant provided a letter from the architect to verify the estimated cost to complete the project. The applicant asserts it will cost \$13,628,201 to construct 54,812 square feet of space on the grounds of the hospital and to purchase \$1,256,700 of non-fixed equipment associated with the project. Also, SRH submitted an equipment list to describe items which will be purchased (See Attachment I).

The applicant includes a capital expenditure summary, a three-year projected operating statement, and an Audited Financial Statement. Relating to this project, new staff will not be required nor will SRH have any transfer agreements with other health care providers and entities. Singing River Hospital System will use cash reserves to fund the project and revenue from the rentable space to reduce the debt obligation. Also, the applicant states that the hospital has not ruled out the possibility that a development company such as Johnson Development could solicit investors, with SRH being one of the investors. This means that the development company would create a new L.L.C and in turn have issuance of a routine fixed rate loan, in the name of the L.L.C., and the hospital would rent the space it needs. The applicant's anticipated date of completion for the project is April 1, 2009.

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 5, 2008.

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

A. State Health Plan (SHP)

The *FY 2007 Mississippi State Health Plan (FY 2007 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

Singing River Hospital proposes to construct a medical office building (MOB). The applicant asserts that the need for an MOB is evidenced by the lack of nearby medical office space to facilitate expanding medical staff and private practicing physicians.

SHP Criterion 3 - Charity/Indigent Care

Singing River Hospital System asserts that it will continue to provide a "reasonable amount" of indigent/charity care as described in Chapter I of the *FY 2007 MSHP*. SRHS projects that 3.8 percent of its net revenue will be medically indigent care.

SHP Criterion 4 - Cost of Proposed Project

- a. **Cost per Square Foot:** The applicant states that the proposed project consists of 54,812 square feet of new construction. The cost per square foot of new construction is \$226.00 for the project. The applicant further states that the architect quotes square foot price from the *Means Building Construction Cost Data, 2008 Edition*, of \$124.00 per square foot are very generic. The architects contend that \$226.00 per square foot of new construction is appropriate and reasonable for the MOB project.
- b. **Equipment Cost:** The applicant proposes to purchase non-fixed equipment at a total cost of \$1,256,700.00 and does not anticipate purchasing any fixed equipment (see Attachment I). Also, they do not expect equipment costs to exceed the median costs for equipment or similar quality by more than 15%.

SHP Criterion 5 - Floor Area and Space Requirements

Singing River Hospital System proposes to construct 54,812 square feet of space for a Medical Office Building.

- a. The applicant asserts that the gross square footage of the proposed project is comparable in size and cost to similar projects in the state of Mississippi.
- b. The applicant asserts that the architectural design does not place material restraints on the proposed project.
- c. The applicant asserts that design and construction plans have taken the threat of tropical weather systems into consideration including storm surges and hurricane force winds.

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, February 23, 2008, Revision*, addresses general criteria by which all CON applications are reviewed. This application is in substantial compliance with general review criteria.

GR Criterion 1 – State Health Plan

The project is consistent with the *FY 2007 State Health Plan*.

GR Criterion 2 - Long Range Plan

The applicant states that SRHS reviewed the long range development plans for the Medical Office Building with architects, Board of Trustees, management team and a consulting firm to alleviate the lack of medical office space in the nearby community. The applicant further states that the lack of sufficient office space tends to handicap provider recruitment and causes unnecessary travel for its patients. The Board of Trustees adopted a resolution on March 27, 2008, to apply for a Certificate of Need to construct a

new medical office building which will offer the community in General Hospital Service Area 7(GHSA 7) better access to healthcare.

The applicant asserts that the proposed project represents an integral part of the organization's long range plan of ensuring sufficient levels of healthcare providers and also delivering convenient, sufficient and quality healthcare to its customers. The applicant further believes that this project will help the organization secure the services of primary care providers, as well as specialists, for the residents in GHSA 7.

GR Criterion 3- Availability of Alternatives

The proposed project requests CON authority to construct a new medical office building in GHSA 7.

Singing River Hospital states that it also considered the alternative to look to the private sector for available office space. However, that alternative was not an option due to the fact that all the existing medical office space was currently at capacity.

Singing River Hospital states that another alternative would be to purchase land in the immediate vicinity of the hospital with the intention of developing the medical office building. The high cost of land made this alternative financially unfeasible.

The applicant indicates that the hospital has not ruled out the option that a development company i.e., Johnson Development, could solicit investors, with SRH being one of the investors. Therefore, the development company would create a new Limited Liability Company (L.L.C.) and in turn have the L.L.C. facilitate the construction of the Medical Office Building and secure the needed capital with the issuance of a routine fixed rate loan, in the name of the L.L.C. As a result, the hospital would rent the space it needs and retain its cash reserves.

GR Criterion 4 - Economic Viability

Based on the applicant's three-year projection, for the project only, this project will suffer net losses of \$228,313 the first year and gains of \$17,222 the second year and \$135,399 the third year of operation.

- a. **Proposed Charge:** The applicant contends that this project is not expected to have any material impact on current gross revenues and

a minimal impact on expenses per patient days and per procedure.

- b. **Projected Levels of Utilization:** The applicant contents that the projected levels of utilization are consistent with those of facilities in GHSA 7.
- c. **Project's Financial Feasibility Study:** The application contained a letter signed by the hospital's chief financial officer asserting that SRHS is financially able to undertake this project.

GR Criterion 5 - Need for the Project

The applicant states that it is the opinion of Singing River Hospital that a centralized location where a patient can access the ancillary services offered by the hospital and the services offered by employed and non-employed physicians will benefit the patients in GHSA 7. The applicant asserts that currently patients must travel to and from physician offices and the hospital to have procedures done or to pick up reports or preparations for procedures. The applicant believes that construction of the medical office building on the hospital's campus will alleviate this burden and deliver healthcare more efficiently for the patients.

SRH states the facility will serve all residents in GHSA 7 without respect to race, color, age, sex, ethnicity, or ability to pay. The medical office building will tentatively operate from 7:00 a.m. to 5:00 p.m. Monday - Saturday.

The applicant asserts this project does not involve relocating the facility, but will relocate a portion of the hospital's outpatient Radiology and Rehabilitation services, as well as centralize the Neuro-Sciences department to the new MOB.

The project should have no effect on existing facilities in GHSA 7 because no additional beds or services will be added.

The application contains four endorsement letters dated March 14, 2008, one from an area physician, two from community leaders, and one from a local political official.

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

GR Criterion 6 - Accessibility

SRH asserts that all residents in GHSA 7 will have access to the MOB without respect to race, color, age, sex, ethnicity, or ability to pay.

The applicant submits that SRH has no obligations under any federal regulations regarding uncompensated care, community service, or access by minority/handicapped persons.

SRH is a Medicare and Medicaid provider and reports 3.8 percent of its gross patient revenue to medically indigent patients.

The applicant states that the hospital is conveniently located on highway 90 in Pascagoula, Mississippi and the proposed MOB will be located on the campus of the hospital, thus is accessible from I-10 via highway 63 then highway 90 west. The applicant asserts that the driving time from I-10 is about 15 minutes. The applicant further states that patients can access the hospital by several county streets that encompass the hospital and lead to I-10 or highway 90 and throughout the community.

The applicant also noted that the hospital currently offers a patient transportation service from the patient's home, free of charge, and this project alone can dramatically enhance the patients' access to quality healthcare.

The medical office building will tentatively operate from 7:00 a.m. to 5:00 p.m. Monday - Saturday.

GR Criterion 7- Information Requirement

The applicant affirms that SRH will 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

The applicant states that this project and other plans of SRH are developed with the residents of the community in mind and believe that this is a project that will enable them to provide convenient healthcare to the community.

Singing River Hospital does not have any transfer agreements with other health care providers and entities. Thus, the applicant believes that if the MOB is not developed the hospital will face difficulties in the future as it tries to recruit providers to the service area.

The project is not expected to have an adverse impact on existing facilities in GHSA 7.

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

GR Criterion 9 - Availability of Resources

Singing River Hospital contends that no new personnel will be needed for the MOB, while physician recruitment will come from educational institutions and other areas to fill the rentable space within the MOB.

The applicant states that the hospital has demonstrated a successful staffing history and asserts that the hospital is conveniently located around numerous educational centers that produce qualified personnel to ensure proper implementation of this project.

The applicant did not identify other alternative uses of resources for the provision of other health services.

GR Criterion 10 - Relationship to Ancillary or Support Services

The applicant asserts that the project should not have an adverse effect upon the delivery of ancillary or support services nor the charges associated with the services.

GR Criterion 11- Health Professional Training Programs

Since the proposed project is for the construction of a MOB, the clinical needs of health professional training programs will not be affected by the project. The applicant contends that this criterion is not applicable to the proposed project.

GR Criterion 12- Access by Health Professional Schools

The project does not propose to establish or offer any type of health services which may require health professional schools in GHSA 7 to have access to the services for training purposes. The applicant asserts that this criterion is

not applicable to the proposed project.

GR Criterion 14 - Construction Projects

- a. **Cost Estimate:** The application contains a cost estimate prepared by Robert R. Taylor, AIA, Architect.
- 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 a MOB.
- e. **Cost per square foot:** The applicant states that the cost to construct 54,812 square feet of space will be \$226.00 per square foot of new construction (see Attachment II). The *Means Building Construction Cost Data, 2008 Edition*, does not compare costs of construction for MOBs.

GR Criterion 16 - Quality of Care

The applicant asserts that SRH is certified to participate in the Medicare and Medicaid programs and is accredited by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO). The applicant further asserts that SRH participates in and has received various awards/recognition from other healthcare organizations for the hospital's delivery of healthcare services.

Singing River Hospital believes that the MOB will provide needed office space for physicians and being in close proximity to the hospital will provide more efficient and timely healthcare service for the residents of GHSA 7.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

Cost Item	Projected Cost	% of Total
Construction Cost -- New	\$9,821,175	72.07%
Non-Fixed Equipment Cost	1,256,700	9.22%
Capital investment	18,000	0.13%
Site Preparation Cost	863,748	6.34%
Fees (Architectural, Consultant, etc.)	970,797	7.12%
Contingency Reserve	220,000	1.61%
Capitalized Interest	306,281	2.25%
Legal and Accounting Fees	<u>159,500</u>	1.17%
Other	<u>12,000</u>	0.09%
Total Proposed Capital Expenditure	<u>\$13,628,201</u>	<u>100%</u>

Singing River Hospital proposes to construct a 54,812 square foot medical office building. The cost to construct the 54,812 square feet of space will be \$226.00 per square foot. The *Means Building Construction Cost Data, 2008 Edition*, does not compare costs of construction for MOB. The proposed project also contains \$1,256,700 of non-fixed equipment purchase (see Attachment I).

B. Method of Financing

Singing River Hospital will use cash reserves to fund the project. Audited financial statements, along with a Financial Feasibility Statement from the Chief Financial Officer, state that SRH is financially capable of funding the project.

C. Effects on Operating Costs

The applicant projects other operating revenues of \$93,600, \$374,400, and \$468,000 the first, second, and third years of operation, respectively, and expenses of \$321,913, \$357,178, and \$332,601 for the first, second and third years of operation, yielding a net operating loss of \$228,313 the first year of operation and net gain of \$17,222 and \$135,399 the second and third years of operation (see Attachment III).

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. Therefore, the project will not have any effect on third party payors.

V. RECOMMENDATION OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for comment. According to the Division of Medicaid, outpatient services will be paid as outlined in the Medicaid State Plan. The Division does not oppose the application.

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 *2007 Mississippi State Health Plan*; Chapter 8 of the *Mississippi Certificate of Need Review Manual, February 23, 2008, 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 Hospital System.

ATTACHMENT I ESTIMATED EQUIPMENT COST			
ITEM	QUANTITY	PER UNIT COST	TOTAL COST
CT Scanner 16 slice	1	\$568,000	\$568,000
Diagnostic X-Ray machine	1	\$350,000	\$350,000
CT workstation (computer)	1	\$98,000	\$98,000
PACs workstation (computer)	3	\$20,000	\$60,000
Registration Computer/Phone System	7	\$3,000	\$21,000
Subtotal			\$1,097,000
Equip Contingency		10.00%	\$109,700
Misc Rehab equip			<u>\$50,000</u>
Total			<u>\$1,256,700</u>

**Attachment II
 SINGING RIVER HOSPITAL**

Computation of Construction and Renovation Cost

		<u>Total</u>	<u>New Construction</u>	<u>Renovation</u>
<u>Cost Component</u>				
A	New Construction Cost	\$9,821,175	\$9,821,175	
B	Renovation Cost			\$0
C	Total Fixed Equipment Cost			
	Total Non-Fixed Equipment Cost	\$1,256,700	\$0	
	Capital Improvement	\$0		
	Land Cost	\$0	\$0	
D	Site Preparation Cost	\$863,748	\$863,748	
E	Fees (Architectural, Consultant, etc.)	\$1,130,297	\$1,130,297	\$0
F	Contingency Reserve	\$220,000	\$220,000	\$0
G	Capitalized Interest	\$306,281	\$306,281	\$0
	Other (Legal & Accounting Fees)	\$30,000		
	Total Proposed Capital Expenditure	\$13,628,201	\$12,341,501	\$0

Square Footage	54,812	54,812
Allocation Percent		100.00%

Costs Less Land, Non-Fixed Eqt., Cap. Improvement & Other	\$12,371,501	\$12,341,501	\$0
--	---------------------	---------------------	------------

Cost Per Square Foot	\$225.71	\$225.16	
-----------------------------	-----------------	-----------------	--

*Staff calculation

ATTACHMENT III SINGING RIVER HOSPITAL Three-Year Operating Statement (PROJECT ONLY)			
	Year 1	Year 2	Year 3
Revenue			
Patient Revenue:			
Inpatient			
Outpatient			
Total Gross Patient Revenue			
Charity Care			
Deductions			
Total Deductions			
Net Patient Revenue			
Other Operating Revenue	93,600	374,400	468,000
Total Operating Revenue	<u>\$93,600</u>	<u>\$374,400</u>	<u>\$468,000</u>
Expenses			
Depreciation	146,413	146,413	146,413
Services	175,500	180,765	186,188
Other		\$30,000	
Total Expenses	<u>\$321,913</u>	<u>\$357,178</u>	<u>\$332,601</u>
Net Income (Loss)	<u>\$(228,313)</u>	<u>\$17,222</u>	<u>\$135,399</u>
Utilization			
Inpatient Day			
Outpatient Day			
Procedures			
Charge Per Procedure			
Cost Per Procedure			
Charge Per Outpatient Day			
Charge Per Inpatient Day			
Cost Per Outpatient Day			
Cost Per Inpatient Day			