

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

**CON REVIEW: FSF-A-0708-023
GULF SOUTH SURGERY CENTER, LLC
d/b/a GULF SOUTH SURGERY CENTER
COST OVERRUN/AMENDMENT TO CON #R-0724
INITIAL CON REVIEW: FSF-RC-0506-014
(ADDITION OF OPERATING ROOM EQUIPMENT)
REVISED CAPITAL EXPENDITURE: \$4,200,855
ADDITIONAL CAPITAL EXPENDITURE: \$42,055
LOCATION: GULFPORT, HARRISON COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Gulf South Surgery Center, LLC (GSSCLLC) is a limited liability company doing business as Gulf South Surgery Center (GSSC) in Gulfport, Harrison County, Mississippi. Gulf South Surgery Center is managed and operated by Gulf South Surgery Center, LLC; however, specific management services are provided by Surgical Management Associates, LLC pursuant to a management agreement. The facility is governed by a Board of Directors consisting of seven members and is certified to participate in the Medicaid and Medicare programs. The Mississippi State Department of Health, Division of Health Facilities Licensure and Certification has approved GSSCLLC for construction and renovation.

B. Project Background (CON #R-0724)

Gulf South Surgery, LLC d/b/a Gulf South Surgery Center (GSSC) requested Certificate of Need (CON) authority for the construction and renovation of the existing center located at 1206 31st Avenue in Gulfport, Mississippi. Since the existing center was constructed in the late 1950s and was used for a small inpatient hospital, GSSC believed it was in their best interest to revamp the surgery center. In turn, the major overhaul would allow GSSC to significantly improve the center to meet the standards set forth by the Accreditation Association for Ambulatory Health Care (AAAH) so that the surgery center could possibly be approved for accreditation.

On October 26, 2006, Gulf South Surgery Center was granted Certificate of Need (CON) #R-0724 to convert two existing recovery rooms into one large OR, construct a new recovery area, business office, and two operating rooms. Also, GSSC's proposal included renovating the current center, completing site work to replace three operating rooms, and expanding the center's existing parking lot and landscaping. To complete the project, GSSC's plans entailed the construction and renovation of 24,690 square feet of space. The construction and renovation of new/existing space comprised 9,760 and 14,930 square feet, respectively. Gulf South Surgery Center obligated a capital expenditure of \$4,200,855 and scheduled to complete the project in six phases within 22 months.

The application included a capital expenditure summary, unaudited Financial Statements, and a Three Year Projected Operating Statement. The original application indicated that GSSC employed 30.4 personnel; however, no new personnel would be hired to operate the surgery center. Gulf South Surgery Center verified that a commercial loan of \$4,200,000 from Bancorp South of Biloxi, Mississippi, and the remaining balance of \$855.00 from GSSC's cash reserves would be used to finance the project. The application contained a letter from Bancorp South stating its interest in financing the \$4.2 million for the proposed project.

C. Project Description

Gulf South Surgery Center requests a cost overrun on CON #R-0724 to add an additional operating room (OR) and add three additional full-time personnel to operate the additional operating room. The surgery center is located in General Hospital Service Area (GHSA) 7 and presently, the surgery center is licensed for three operating rooms and two procedure rooms.

Briefly, the *FY 2007 Freestanding Ambulatory Surgery Centers (Multi-Specialty) Survey* shows that Gulfport Outpatient Surgical Center (GOSC) was no longer operational as of June 1, 2008, and ceased to exist as an ambulatory surgery center. However, Garden Park Memorial Hospital maintains the medical records for the center. Also, Gulfport Surgery Center (GSC) was purchased by Memorial Hospital at Gulfport and effective October 1, 2007, the center is operating under the license of the hospital.

Due to these changes, Gulf South Surgery Center anticipates the center will perform more surgeries than what the center is reporting now. In the initial CON application dated May 1, 2006, GSSC requested to remodel and relocate two existing operating rooms and convert two existing recovery rooms into one large operating room. As each operating room was remodeled and relocated, the center planned to take each dated room out of operation; however, the number of operating rooms would remain as three.

Based on the survey for FY 2007, GSSC performed 2,979 surgeries utilizing three operating rooms; however, GOSC and GSC performed 2,321 and 1,617 utilizing three and four operating rooms, respectively. To accommodate an influx of future cases and higher volume of surgeries, GSSC proposes to keep one of the old operating rooms and to purchase OR equipment for one of the new operating rooms. No additional construction or renovation will be required. Thus, the total square feet of space will remain at 24,690. If the CON amendment and cost overrun is approved, the number of ORs will increase to four.

The applicant included the following revised documents: revenue source projections, income statements, capital expenditure summary, and the manpower table. Regarding the CON amendment and cost overrun, GSSC will hire additional nurses at an estimated annual cost of \$240,000, yielding an increase of two Registered Nurses and one Licensed Practical Nurse. To fill the positions, GSSC will post each position in the local newspaper and will follow its normal interview process involving potential candidates for employment. There were no other changes in staffing or with any transfer/referral/affiliation agreements. However, the surgery center will purchase fixed OR equipment at a cost of \$41,200; therefore, the fixed equipment cost will increase from \$132,200 to \$173,400.

Gulf South Surgery Center, LLC provided unaudited Financial Statements for 2007 and 2006. In addition, the entity submitted a letter of approval from Bancorp South stating the amount of \$41,200 will be financed by the financial institution so that the entity can purchase/install OR equipment in the additional operating room. Schedules for amortization and depreciation were provided with a letter indicating the monthly payment amount, interest, principal, balance, and the amount the OR equipment will depreciate each year. All non-debt financing is provided by the current operating budget.

On October 1, 2008, GSSC reported that one board member was replaced with another person; the center has completed 40% of the initial project; and it has paid \$1,842,638 of the initial capital expenditure of \$4,200,855. Gulf South Surgery Center estimates that the completion date of the project will be June 1, 2009.

II. TYPE OF REVIEW REQUESTED

The State Health Officer reviews all projects for cost overrun and amendments 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 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 December 4, 2008.

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

A. State Health Plan (SHP)

The *FY 2006 Mississippi State Health Plan (MSHP)* does not address policy statements and specific criteria and standards for construction/renovation of an ambulatory surgery center. However, the *Plan* discusses the establishment and expansion of a surgery center.

The proposed amendment and cost overrun project is not in substantial compliance with the *FY 2006 MSHP* and the *FY 2007 MSHP*. Updated data for FY 2007 indicate that there were eight facilities operating 26 operating room suites in General Hospital Service Area (GHSA) 7. These facilities performed a total of 16,820 surgeries for an average of 626.92 per operating suite (See Attachment 2).

In the *FY 2007* and *FY 2006 MSHP*, policy statement number seven indicates the following regarding CON applications for Ambulatory Surgery Services: the optimum capacity of an ambulatory surgery facility is 800 surgeries per operating room per year. The MSDH shall not issue a CON for

the establishment or expansion of an additional facility(ies) unless the existing facilities within the Ambulatory Surgery Planning Area (ASPA) have performed in aggregate at least 800 surgeries per operating room per year for the most recent 12-month reporting period, as reflected in data.

Equally important, number 3, under the CON Criteria and Standards for Ambulatory Surgery Services states: an applicant proposing to offer ambulatory surgery services shall document that the existing facilities in the ambulatory surgery planning area have been utilized for a minimum of 800 surgeries per operating room per year for the most recent 12-month reporting period as reflected in data supplied to and/or verified by the Mississippi State Department of Health. The MSDH may collect additional information it deems essential to render a decision regarding any application.

Since the amendment will result in an additional operating room, the proposed project will change the scope or overall objectives of the original project. Therefore, the project is not in substantial compliance with the overall objectives of the *Plan*. The optimum capacity of 800 surgeries per operating room for GHSA 7 was not met for the most recent 12-month reporting period (See Attachment 2).

B. General Review (GR) Criteria

The original project was in substantial compliance with Chapter 8 of the *Mississippi Certificate of Need Review Manual, 2000 revision*. This application continues to be in substantial compliance with general review criteria contained in the Manual.

IV. FINANCIAL FEASIBILITY

A. Expenditure Summary

A comparison of the original and revised expenditure is as follows:

Cost Item	Original Approved Capital Expenditure	Revised Capital Expenditure	Increase or (Decrease) Capital Expenditure
Construction Cost -New	\$ 1,870,295	\$1,870,295	\$ 0
Construction Cost-Renovation	913,816	913,816	0
Capital Improvements, i.e. (minor painting and repairs, refurbishing)	41,000	41,000	0
Total Fixed Equipment Cost	132,200	173,400	41,200
Total Non-Fixed Equipment Cost	159,500	159,500	0
Land Cost	-	-	0
Site Preparation Cost	336,135	336,135	0
Fees (Architectural, Consulting, Etc)	230,554	230,554	0
Contingency Reserve	273,792	273,792	0
Capitalized Interest	243,563	243,563	0
Other Cost			0
TOTAL CAPITAL EXPENDITURE	\$4,200,855	\$4,242,055	\$ 41,200

The original capital expenditure listed above was approved on October 26, 2006. It included new construction of 9,760 square feet of space at a cost of \$252.56 per square foot and 14,930 square feet of renovated space at a cost of \$91.49 per square foot. The *Means Construction Cost Data, 2006 Edition*, does not provide ambulatory surgery center construction cost data.

The revised capital expenditure above does not require any new construction or renovation; however, the summary only involves the purchase of fixed OR equipment at a cost of \$41,200.

B. Method of Financing

The original Certificate of Need (CON) FSF-RC-0506-014 indicated that Gulf South Surgery Center obtained a commercial loan of \$4,200,000 from Bancorp South of Biloxi, Mississippi and the remaining balance of \$855.00 from Gulf South Surgery Center's cash reserves would be used to finance the project. The application contains a letter from Bancorp South stating its interest in financing the \$4.2 million for the proposed project and included

an amortization schedule. The schedule indicated that the bank would finance \$4,200,000 at a rate of 8.000%, payable in 60 payments of \$85,160.86 per month.

To finance the proposed CON amendment and cost overrun project, GSSCLLC provided a loan approval letter from Bancorp South stating the amount of \$41,200 will be financed by the bank at a rate of 5.641%, payable in 60 payments of \$786.97 per month.

C. Effect on Operating Costs

In regard to the amendment and cost overrun of this project, the applicant projects gross revenues of \$24,610,493, expenses of \$5,369,933, and net income of \$4,188,872 for the first year of operation (see Attachment 1). Utilization, cost, and charges are projected as follows:

	Initial Year 1	Revised Year 1
Procedures	5,900	5,900
Charge /Procedure	\$3,566	\$4,171
Cost/Procedure	\$776	\$910

D. Cost to Medicaid/Medicare

PAYOR	UTILIZATION	FIRST YEAR GROSS REVENUE
Medicaid	21%	\$5,906,518.30
Medicare	2%	492,209.86
Other	74%	18,211,764.00
TOTAL	100.00%	\$24,610,492.16

Note: Due to rounding, the total is off by .84¢.

V. RECOMMENDATION OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for comment; however, no written comments were received from the Division.

VI. CONCLUSION AND RECOMMENDATION

The initial project is in substantial compliance with the overall objectives of the *FY 2006 Mississippi State Health Plan*; Chapter 8 of the *Mississippi Certificate of Need Review Manual, 2000 revision*; and all adopted rules, procedures, and plans of the Mississippi State Department of Health in effect at the time of the approval.

However, this amendment project is not in substantial compliance with applicable criteria and standards and adopted rules, procedures, and plans of the Department to add an additional operating room (OR). Section 103.01 Policy Statement (PS) regarding Certificate of Need Applications for Ambulatory Surgery Services, #7 and 103.02 Certificate of Need Criteria and Standards for Ambulatory Surgery Services, # 3 both specifically state the following:

PS 7. Optimum Capacity: The optimum capacity of an ambulatory surgery facility is 800 surgeries per operating room per year. The MSDH shall not issue a CON for the establishment or expansion of an additional facility(ies) unless the existing facilities within the ASPA have performed in aggregate at least 800 surgeries per operating room per year for the most recent 12-month reporting period, as reflected in data supplied to and/or verified by the MSDH. The MSDH may collect additional information it deems essential to render a decision regarding any application. Optimum capacity is based on four (4) surgeries per operating room per day x 5 days per week x 50 weeks per year x 80 percent utilization rate.

CON Criteria 3. An applicant proposing to offer ambulatory surgery services shall document that the existing facilities in the ambulatory surgery planning area have been utilized for a minimum of 800 surgeries per operating room per year for the most recent 12-month reporting period as reflected in data supplied to and/or verified by the Mississippi State Department of Health. The MSDH may collect additional information it deems essential to render a decision regarding any application.

- There are five operational surgery facilities in Harrison County and three facilities in Jackson County. In FY 2007, operational surgery facilities in GHSA 7 averaged 646.92 surgeries per operating room; well below the 800 optimum capacity level required (See Attachment 2).

Consequently, the Division of Health Planning and Resource Development recommends disapproval of this application submitted by Gulf South Surgery Center, LCC d/b/a Gulf South Surgery Center (GSSC).

ATTACHMENT 1

**Gulf South Surgery Center, LLC d/b/a Gulf South Surgery Center
 First-Year Projected Income Statement
 (With Project)**

	Original Application First Year	Amendment Application <i>Revised</i> First Year
Revenue		
Inpatient Care Revenue	\$ -	\$ -
Outpatient Care Revenue	21,041,477	24,610,493
Gross Patient Care Revenue	\$ 21,041,477	\$ 24,610,493
Charity Care	\$ 717,621	\$ 788,122
Deductions from Revenue	12,085,586	14,263,566
Net Patient Care Revenue	\$ 8,238,269	\$ 9,558,805
Other Operating Revenue	-	-
Total Operating Revenue	\$ 8,238,269	\$ 9,558,805
Operating Expense		
Salaries	\$ 1,180,610	\$ 1,380,610
Benefits	295,152	335,152
Supplies	1,210,000	1,385,000
Services	551,000	551,000
Lease		
Depreciation	309,000	359,000
Interest	424,657	734,314
Other	609,857	624,857
Total Operating Expense	\$ 4,580,276	\$ 5,369,933
Net Operating Income (Loss)	\$ 3,657,993	\$ 4,188,872
Procedures	5,900	5,900
Charge per procedure	\$ 3,566	\$ 4,171
Cost per procedure	\$ 776	\$ 910

ATTACHMENT 2

Total Surgeries Performed In Harrison and Jackson Counties

FY 2007 Reporting Period Freestanding Ambulatory Surgery Centers & Planning Areas (Multi-Specialty)

Freestanding Ambulatory Surgery Centers					GHSAs	Suites	# of Surgs.	Proc. Rms	No. of Proc.
County	GHSA 7	GHSA	Suites	# of Surgs.	Proc. Rms	No. of Proc.			
Harrison	Cedar Lake Surgical Center	7	4	3,279	2	2,859			
Harrison	Gulf Coast Outpatient Surgery Center	7	3	2,499	2	1,567			
Harrison	Gulfport Outpatient Surgical Center, LP *	7	3	2,321	1	201			
Harrison	Gulfport Surgery Center *	7	4	1,617	5	800			
Harrison	Gulf South Outpatient Surgery Center	7	3	2,979	2	4,481			
TOTAL			17	12,695	12	9,908			
Jackson	MS Coast Endoscopy and Amb. Surgery Center	7	4	1,520	5	2,864			
Jackson	New Gulf Coast Surgery Ctr. (fka Gulf Coast Surg. & Endo. Ctr.) *	7	2	551	3	7,993			
Jackson	Ocean Springs Surgical and Endoscopy Center	7	3	2,054	4	4,182			
TOTAL			9	4,125	12	15,039			
GHSA 7	GRAND TOTAL	7	26	16,820	24	24,947			
GHSA 7	Average Number of Surgeries Performed Per Operating Room	7	646.92						

***Harrison CNTY**

Gulfport Outpatient Surgical Center-1240 Broad Ave., Gulfport, MS: Effective 06/01/08 at 12:01 AM, the ASC is no longer operational and ceases to exist as an ASC. Medical records will be relocated to and maintained by Garden Park MC.

Gulfport Surgery Center-1300 Broad Ave., Gulfport, MS: Effective 10/01/07, Memorial Hospital at Gulfport purchased the ASC. The center is now operating under the hospital license of Memorial Hospital at Gulfport.

***Jackson County**

New Gulf Coast Surgery Center: BMHA, Inc. d/b/a Biloxi RMC of Harrison County now manages the ASC.