

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANING AND RESOURCE DEVELOPMENT
JANUARY 2009**

**CON REVIEW HG-A-0608-021
RUSH FOUNDATION HOSPITAL
COST OVERRUN TO CON NO.R-0683
(THIRD FLOOR RENOVATION PROJECT)
APPROVED CAPITAL EXPENDITURE: \$5,828,765
ADDITIONAL CAPITAL EXPENDITURE: \$1,871,667
REVISED CAPITAL EXPENDITURE: \$7,700,432
LOCATION: MERIDIAN, LAUDERDALE COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Rush Medical Foundation d/b/a Rush Foundation Hospital (Rush) is a private, non-profit, 215-bed general acute care hospital. The hospital is owned by Rush Medical Foundation and is governed by a six-member Board of Directors appointed by Rush Health Systems, Inc. Rush is accredited by the Joint Commission on the Accreditation of Healthcare Organizations and licensed by the Mississippi State Department of Health.

The occupancy rates, average lengths of stay (ALOS), and the Medicaid utilization rates for Rush are as follows for the years 2005 through 2007:

**Rush Foundation Hospital
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2005	43.38	4.05	21.87
2006	43.44	4.36	22.46
2007	42.27	4.37	24.14

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

B. Project Background

Rush Foundation Hospital obtained CON authority for a third floor renovation project by Certificate of Need No. R-0683, effective October 6, 2005. On September 29, 2008, Rush was approved for a six-month extension on CON No. R-0683. This extension period will terminate April 6, 2009.

The original project involves 33,316 square feet of renovation on the third floor of the hospital. Rush intends to redesign the women's health wing to meet current standards, both from a facility space planning, as well as a patient care perspective.

C. Project Description

Rush Foundation Hospital now requests Certificate of Need authority for a cost overrun to its CON No. R-0683. Rush asserts that the cost overrun is necessary because it has incurred higher construction costs than were originally anticipated when the Certificate of Need application was filed in June, 2005. According to the applicant, there are various reasons for the increased expense associated with the proposed cost overrun project, and they are as follow: the rising cost of energy, costs for materials used in the construction, steel beams, aluminum studs, copper wiring, plumbing, and all contracted labor costs. According to the applicant, stretching the project over months and even years in order that the hospital can continue to serve its patients while undergoing construction add costs to the renovation project whether or not materials or labor costs rise over time. For this reason, the applicant requests authority to expend additional capital in order to complete the proposed third floor renovation project.

Rush Foundation Hospital asserts that the phasing of the project has necessitated certain unavailable delays in project completion. The north wing renovation is complete; the west wing renovation is still underway and is expected to be completed the first quarter of 2009, with the east wing renovation to be completed by December 2009.

According to the applicant, the capital expenditure approved in the original CON is \$5,828,765 and the additional costs for this cost overrun proposal are \$1,871,667, resulting in a revised capital expenditure of approximately \$7,700,432 for the project. This cost overrun project does not change the scope of the original project.

According to Rush Foundation Hospital, 75-80 percent of work is completed. The applicant states that \$271,667 of the additional capital expenditure (\$1,871,667) has already been incurred.

II. TYPE OF REVIEW REQUIRED

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

The State Health Officer reviews all projects for 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 of 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 February 12, 2009.

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

A. State Health Plan

The original project was in substantial compliance with the *FY 2005 State Health Plan*, in effect at the time the original application was submitted. This cost overrun project continues to be in substantial compliance with the *State Health Plan*.

B. General Review Criteria

The original project was in substantial compliance with the *Certificate of Need Review Manual, 2000 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 *Manual*.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

	<u>Approved Capital Expenditure</u>	<u>Revised Capital Expenditure</u>	<u>Increase (Decrease)</u>
New Construction	0	0	0
Renovation	\$3,657,311	\$5,528,978	\$1,871,667
Capital Improvements	0	0	0
Land	0	0	0
Site Work	0	0	0
Fixed Equipment	1,549,711	1,549,711	0
Non-Fixed Equipment	0	0	0
Architectural/Engineering Fees	256,012	256,012	0
Contingency Reserve	365,731	365,731	0
Capitalized Interest	0	0	0
Other Cost (specify)	0	0	0
Total	\$5,828,765	\$7,700,432	\$1,871,667

As previously mentioned, the capital expenditure approved in the original CON is \$5,828,765 and the additional costs for this cost overrun proposal are \$1,871,667, resulting in a revised capital expenditure of approximately \$7,700,432 for the project. This cost overrun project does not change the scope of the original project.

B. Method of Financing

The applicant proposes to finance the proposed cost overrun from accumulated cash reserves.

C. Effect on Operating Cost

According to the applicant, Rush's original projected three-year operating statement, revenue, expenses, net income and utilization for the three years of operation for the original project will not change as a result of the proposed cost overrun. The applicant states that the cost overrun is not expected to have a material impact on charge or cost per day.

According to the applicant, the projected annual depreciated cost for this cost overrun is \$448,307.

D. Cost to Medicare/Medicaid

According to the applicant, the additional capital expenditure is not expected to have a material effect on Medicare, Medicaid or other patients or payors.

V. RECOMMENDATION OF OTHER AFFECTED AGENCIES

The Division of Medicaid estimates that the increased annual cost to Medicaid for the proposed project will be \$67,429 in inpatient services, and that outpatient services will be paid as outlined in the *Medicaid State Plan*.

VI. CONCLUSIONS AND RECOMMENDATION

This project continues to be in substantial compliance with the overall objectives of the *FY 2005 State Health Plan; Certificate of Need Review Manual; Revised 2000*; 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 Rush Medical Foundation d/b/a Rush Foundation Hospital for a cost overrun to CON #R-0683 (Third Floor Renovation Project).