

**Division of Health Planning
and Resource Development
February 2003**

**CON Review HG-CB-1202-077
River Oaks Hospital, Inc.
Vision 2003 Facility Expansion/Renovation and
Medical Office Building
Capital Expenditure: \$34,855,259
Location: Jackson, Mississippi**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

River Oaks Hospital is a 110-bed short-term, proprietary acute care hospital owned and operated by Health Management Associates, Inc. (HMA). The Board of Trustees of River Oaks Hospital System consists of 15 members. The hospital is accredited by the Joint Commission on Accreditation of Healthcare Organizations, and is certified to participate in the Medicare and Medicaid programs.

The facility's occupancy rates, average lengths of stay (ALOS), and Medicaid utilization rates for the past fiscal years are as follows (medical/surgical beds only):

**River Oaks Hospital, Inc.
Utilization Data**

Year	Occupancy Rate (%)	ALOS (Days)	Medicaid* Utilization Rate (%)
2000	66.30	4.15	6.08
2001	73.53	4.22	19.97
2002*	77.39	4.21	23.30

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

*Preliminary Data for 2002

B. Project Description

River Oaks Hospital requests CON authority for the construction of a new medical office building, energy plant, physical and occupational therapy department, admissions department and main lobby and entrance canopies; the renovation of the existing radiology and imaging department and cardiopulmonary vascular suites; and the relocation of the emergency services department. The applicant also anticipates the construction of additional parking areas. Applicant submits that the project is the result of extensive analysis of the growth of inpatient and outpatient services provided at River Oaks Hospital.

The project entails 162,000 square feet of new construction and 27,300 square feet of renovation as follows:

Hospital Floor/Department	New Construction Square Footage	Renovation Square Footage
New Construction		
New Medical Office Building	127,000	
Physical Plant, including expanded heating, ventilation and cooling systems and energy plant	3,500	
New Emergency Services Department	10,600 (included in MOB)	
Two Story Infill expansion	20,400	
New Entrance Canopies	NA	
Other Minor Connectors & Lobby Areas	11,100	
Renovation		
Radiology/Imaging Suite		9,645
Hospital Administration, including medical records, conference rooms and class rooms		1,865
Existing Dining Facilities		1,800
Relocation of Cardiopulmonary/Vascular Suite		10,115
Other Minor Renovations		3,875
TOTAL	162,000	27,300

River Oaks Hospital proposes to lease property to a developer who will construct the medical office building, complete the build-out of the new emergency services department, and then enter into an operating lease to lease back the constructed building and emergency services department to River Oaks Hospital. River Oaks will then lease the medical office space to community physicians. The hospital will remain in full control over all aspects of the operation, staffing, and equipping of the emergency services department.

Finally, this project proposes the acquisition of additional radiology and imaging equipment, as well as additional equipment in the expanded emergency services department. The project, however, does not include the purchase of any major medical equipment or the addition of any new institutional health services.

The applicant anticipates that the hospital's capability to provide ancillary services, including diagnostic imaging, physical and occupational therapy, and emergency services, will increase as a result of this project. No new licensed beds will occur as a result of this project.

The applicant projects that staffing at the facility will continue to grow in accordance with normal increases in utilization. However, the hospital does not project any specific incremental growth related solely to this proposal.

The estimated capital expenditure for this project is \$34,855,259, and of that amount, 40 percent is projected for new construction; 12 percent for renovation, 32 percent for fixed and non-fixed equipment; and the remaining 16 percent is for site preparation, fees and contingency reserve. The applicant proposes to finance the project with accumulated cash reserves. The Division of Licensure and Certification has approved the site for this project.

The proposed project will be completed in multiple phases. In Phase I, the developer will construct the new MOB, energy plant and emergency suite. In addition, River Oaks will construct a two-story expansion between the existing hospital and the existing Suites building and will construct a new entry canopy and drive.

In Phase II, the existing emergency department, physical and occupational therapy department, admissions office, gift shop, and main lobby will be relocated to the new MOB or the infill construction area, while the dining area will be expanded into vacated space. Tenants on the first floor of the Suites will be relocated into the newly constructed MOB.

In Phase III, the vacated first floor of the Suites will be renovated for use by cardiopulmonary and vascular services, while the vacated emergency department, physical and occupational therapy department, and the medical records department will be renovated for use by the expanded radiology and imaging department.

The applicant expects the expenditure associated with the initial phase will be incurred upon receipt of CON authority and construction will be completed within 12 to 18 months. The final two phases will commence upon completion of Phase I and will take approximately six months to complete.

II. TYPE OF REVIEW REQUIRED

This project, which proposes facility expansion, renovation and construction of a new medical office building, is reviewed in accordance with Section 41-7-191, subparagraph (1)(j) Mississippi Code of 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 1972 Annotated, as amended, any 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 March 6, 2003.

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

A. State Health Plan (SHP)

The *FY 2003 State Health Plan* contains criteria and standards which an applicant is required to meet before receiving CON authority for renovation, expansion and the addition of hospital beds. The applicant is in substantial compliance with said criteria.

SHP Criterion 1- Need

According to the applicant, this project is necessitated by the rapid growth in the types of services offered at the facility, the increased number of physicians on the hospital's medical staff, and the increase in the demand for ancillary services. Applicant submits that within the past three years, River Oaks has experienced:

- 49% growth in the utilization of its existing radiology and imaging services;
- 11% growth in the number of patients treated in the hospital's emergency department;
- the addition of 36 new physicians to the hospital's medical staff;
- 44% growth in the number of deliveries; and
- the addition of new acute care services, including diagnostic cardiac catheterization and angiography.

The applicant submits that as a result of this growth, current hospital facilities have become inadequate to serve the volumes being experienced. In addition, due to the lack of space, existing programs, such as physical and occupational therapy, are experiencing difficulty in expanding and reaching peak operational efficiencies.

The project involves the construction of a new medical office building and an infill connector area, relocation of the Emergency Services Department, renovation and expansion of Radiology and Imaging, and relocation of Physical and Occupational Therapy, Admissions, Main Lobby and Medical Records.

Construction of Medical Office Building. This is a prime component of the project which requires construction of approximately 127,000 square feet of new space in a building directly connected with the existing hospital and the Suites. The construction of this facility will allow River Oaks to accommodate physicians desiring to establish an office practice in a facility immediately accessible to an acute care hospital. The additional space will also allow River Oaks to recruit new physicians to the facility's medical staff, and will free up space for the addition of acute care beds, which the applicant addresses in its application for "Vision 2003 Addition of 90 Acute Care Beds", also pending before the Department.

Relocation of the Emergency Services Department. As a result of the construction of the new medical office building, applicant states that sufficient space will be available for River Oaks to lease space from the MOB developer for the relocation of its existing emergency services department. Applicant documents in the application that River Oaks has experienced a steady and continued growth in the utilization of its emergency services, increasing the total visits per year from 15,715 in FY 2000 to 17,470 in FY 2002. If this same growth were to continue, River Oaks anticipates serving approximately 20,979 patients by FY 2006.

River Oaks Hospital expects to continue participating in the Mississippi State Trauma Network as a Level IV provider.

Renovation and Expansion of Radiology and Imaging. Applicant submits that following the relocation of the emergency services department, it will have sufficient space available for the renovation and expansion of the radiology and imaging department. The utilization of the services offered by this department has increased by 49 percent since FY 2000. If this growth continues, River Oaks expects to perform in excess of 99,173 imaging services by FY 2006.

Relocation of Physical and Occupational Therapy, Admissions, Main Lobby and Medical Records. After relocating the above referenced services, applicant expects that there will be space available to consolidate and expand other services such as radiology and imaging into a more central and efficient area of the facility.

The applicant states that this project encompasses the hospital's long range plan to expand its ability to offer needed services to its service area.

SHP Criterion 3 - Charity/Indigent Care

Applicant affirms that it provides and will continue to provide a reasonable amount of indigent/charity care.

SHP Criterion 4 - Reasonable Cost

Applicant asserts that the cost of the project is reasonable in comparison with the cost of similar projects previously approved by the Department. Based on the formula in the Plan, the applicant estimates the new construction cost per square foot to be \$173.72 and renovation cost per square foot for this project to be \$177.56. Equipment costs do not exceed 15 percent of the median cost for similar projects approved by the Department.

SHP Criterion 5 - Floor Areas and Space Requirements

Applicant submits that the proposed project compares favorably with state and national norms for similar projects.

SHP Criterion 6 - Cost of Replacement vs Renovation

The cost of the project does not exceed 85 percent of the cost of a replacement facility.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual*, revised 2000, addresses general criteria by which all CON applications are reviewed. The applicable criteria are as follows:

GR Criterion 2 - Long Range Plan

Applicant states that River Oaks Hospital is committed to providing state-of-the-art facilities, services and equipment to its patients. The proposed renovation project will significantly enhance the delivery of services in those specified areas of the hospital and is within the stated mission and long range goals of the hospital.

GR Criterion 3 - Availability of Alternatives

Applicant believes that the project, as proposed, is the most efficient and cost effective method of meeting the needs of the health care community served by River Oaks Hospital. Applicant states that the hospital thoroughly considered a number of alternatives, including (1) the construction of a freestanding medical office building and imaging center, (2) renovation of existing facilities without construction of a new medical office building, and (3) maintain the status quo.

The alternative to construct a freestanding MOB was rejected because additional space was needed for physicians, such as OB/Gyns, who need immediate access to acute care patients and services; and a freestanding imaging center would be less accessible to acute care patients or could potentially result in the duplication of equipment.

The alternative to renovate existing facilities without construction of a new MOB was rejected due to the physical space constraints faced by departments in the current configurations. Applicant states that only through the relocation of the emergency department is sufficient space gained to expand the imaging department to appropriately meet current utilization requirements. In addition, the construction of the MOB will make available needed space for expanded acute care services. (Applicant also has pending before the Department an application for the addition of 90 acute care beds and renovation).

Applicant rejected the alternative to maintain the status quo due to the rapid growth in the provision of services at the hospital.

GR Criterion 4 - Economic Viability

The applicant projects excess of revenues over expenses of \$34,680,611, the first year, \$38,647,534 the second year, and \$42,977,792 the third year of operation. Applicant submits that since the project will not be fully implemented until FY 2004, the Projected Operating Statement sets forth projections for Fiscal Years 2004 through 2006.

GR Criterion 5 - Need for Service

River Oaks submits that the proposed services will be accessible to all residents of the area including low income persons, racial and ethnic minorities, elderly, women, handicapped persons, or any other underserved groups.

The proposed project is designed and intended to accommodate current and projected utilization of services for patients of the River Oaks Hospital service area. No adverse impact is anticipated on any other facilities or services.

The application included five letters of support for the project.

Written comments were received from St. Dominic-Jackson Memorial Hospital indicating that River Oaks did not provide adequate information in its application to demonstrate that there exists any need for the expansion. It also questions the need for another MOB when the applicant currently has a MOB under construction (said MOB was CON approved in 2000). However, according to River Oaks, phase one of the already approved MOB is currently under construction and is specifically designed for physicians who desire office space on a hospital campus, without requiring immediate and direct access to an inpatient facility. In addition, applicant states that this building has smaller contiguous office configurations designed for smaller practices.

Applicant submits that the MOB requested in this application will have more contiguous space available for larger practices, which could not be accommodated in the smaller building currently under construction. In contrast, to the types of practices desiring space in a freestanding building, many physician specialties, such as obstetrics and gynecology, vascular surgery and neurology, prefer medical office space located directly adjacent to the acute care patients, labor and delivery suites, and surgical operating rooms.

St. Dominic also questions the applicant's use of the diagnostic cardiac catheterization service as justification for the project. The diagnostic cardiac catheterization service is a joint venture between River Oaks Hospital, Woman's Hospital and Rankin Medical Center, and is housed at River Oaks Hospital.

GR Criterion 6 - Accessibility

River Oaks states that it does not discriminate against the poor, the handicapped, women, the elderly or members of racial and ethnic minorities with regard to the delivery of its health care services. The applicant estimates that it provided the following percentages of gross patient revenue and actual dollar amounts to private pay, charity, and medically indigent patients during the last three years:

2002	3%	\$5,272,047
2001	3%	\$3,864,476
2000	3%	\$3,055,180

GR Criterion 7 - Information Requirement

River Oaks affirms that it will record and maintain records regarding charity care, care to the medically indigent, and Medicaid/Medicare populations. These items will be made available to the Mississippi State Department of Health within 15 business days of request.

GR Criterion 8 - Relationship to Existing Health Care System

The applicant submits that the CON proposal involves an enhancement to the existing facilities and delivery of services River Oaks Hospital already provides to the community. Therefore, the proposed project is expected to have no adverse impact on existing facilities. Applicant believes that the project is vital for the delivery of these health care services to patients of the River Oaks Hospital.

GR Criterion 9 - Availability of Resources

The applicant documented its health, management and financial resources necessary to carry forward with this project. The applicant affirms the availability of resources (including medical staff, health personnel, management personnel, and funds for capital and operating needs) to pursue this project.

GR Criterion 16 - Quality of Care

River Oaks Hospital is in compliance with the *Minimum Standards of Operation for Mississippi Hospitals*, according to the Division of Health Facilities Licensure and Certification. The hospital is accredited by the Joint Commission on Accreditation of Healthcare Organizations.

V. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

New Construction Cost	\$14,054,227
Renovation	4,061,328
Total Fixed Equipment	9,200,930
Total Non-Fixed Equipment	1,865,520
Site Preparation	222,500
Fees	3,790,980
Contingency Reserve	1,659,774
Total Capital Expenditure	\$34,855,259

The capital expenditure proposed is for approximately 162,000 square feet of new construction and approximately 27,300 square feet of renovation. The cost of new construction is estimated to be approximately \$173.72 per square foot and renovation cost is estimated to be \$177.56 per square foot. Cost of new construction lies between the median (\$159) and 3/4 (\$241) quadrants as listed in the *Means Construction Cost Data*, 2003 edition.

B. Method of Financing

The applicant proposes to finance the project with accumulated cash reserves. The application contained a letter from the chief financial officer certifying that the applicant has the ability to undertake the obligation described in the application.

C. Effect on Operating Cost

The applicant projects the following revenues and expenses for the first three years of operation:

	First Year	Second Year	Third Year
Sal./Wages/Benefits	\$39,859,463	\$ 46,015,272	\$51,777,213
Professional Fees	201,317	232,408	261,510
Supplies & Misc.	30,269,196	34,943,905	39,319,511
Purchased Services	6,440,801	7,435,504	8,366,563
Interest	937,679	1,082,492	1,218,040
Bad Debt	5,180,203	5,980,223	6,729,054
Depr. & Amortization	<u>3,212,969</u>	<u>5,098,249</u>	<u>6,245,749</u>
Total Expenses	\$ 86,101,628	\$100,788,053	\$113,917,640
Gross Pt. Revenue	\$244,950,842	\$282,796,188	\$318,220,063
Deductions (-)	<u>(124,218,603)</u>	<u>(143,410,601)</u>	<u>(161,374,631)</u>
Net Patient Rev.	\$120,732,239	\$139,385,587	\$156,845,432
Other Revenue	\$50,000	\$50,000	\$50,000
Excess Rev./Exp.	\$ 34,680,611	\$ 38,647,534	\$ 42,977,792
Patient Days	38,820	43,094	46,627
Occupancy Rate	96.7%	107.3%	116.1%
Cost/Patient Day	\$ 2,218	\$ 2,339	\$ 2,443
Charge/Patient Day	\$ 6,310	\$ 6,562	\$ 6,825

D. Cost to Medicare/Medicaid

The cost of the project to third party payors is as follows:

Patient Mix	Utilization Percentage	First Year Cost
Medicaid	11.0	\$ 9,471,153
Medicare	30.0	25,830,417
Other Payors	<u>59.0</u>	<u>50,799,820</u>
Total	100.0	\$ 86,101,390

The applicant points out that the above information represents the project's first year projected operating expenses allocated to the various payors based on estimated patient mix. Actual impact on payors will vary, due to the fact that the various payors reimburse on the basis of methodologies other than cost.

V. **RECOMMENDATIONS OF OTHER AFFECTED AGENCIES**

The Division of Medicaid was provided a copy of the application for review and comment. Because the majority of the project is for medical office space, Medicaid indicated that the project would have no effect on the Medicaid program and therefore took no position on it.

VI. **CONCLUSION AND RECOMMENDATION**

This project is in substantial compliance with the criteria and standards for expansion and renovation, as contained in the *FY 2003 State Health Plan*; the *Mississippi Certificate of Need Review Manual*, 2000 revisions; and all adopted rules, procedures, and plans of the Mississippi State Department of Health.

The applicant documented the need for the proposed project, based on growth and utilization of facilities and services in the areas affected by the project.

Therefore, the Division of Health Planning and Resource Development recommends approval of the application by River Oaks Hospital, Inc. for the Vision 2003 Facility Expansion/Renovation and Medical Office Building project.