

**Division of Health Planning  
And Resource Development  
May 2003**

**CON Review HG-CB-1202-075  
River Oaks Hospital, Inc.  
Vision 2003 Addition of 90 Acute Care Beds  
Capital Expenditure: \$11,299,902  
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**

<b>Year</b>	<b>Occupancy Rate (%)</b>	<b>ALOS (Days)</b>	<b>Medicaid* Utilization Rate (%)</b>
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 to add 90 acute care beds to its licensed capacity and for the renovation of approximately 50,000 square feet of space currently utilized for physician offices. This space will be reconfigured for the establishment of two new acute care patient units, which will each consist of 33 new licensed acute care beds. In addition, the hospital will expand its existing neonatal intensive care unit through the addition of 20 new licensed acute care beds. Finally, the facility will license 4 beds currently used for 23-hour care, as acute care beds.

The applicant proposes to implement this project in two phases. Phase one will consist of the licensure of 35 acute care beds to address immediate needs for additional licensed capacity. This will occur 30 days after the approval of a CON by the State Health Officer and will be accomplished within the current limitations of the hospital's physical plant as follows:

- 15 rooms, currently utilized for patient stays lasting fewer than 23 hours, will be converted to acute care rooms;
- 4 antepartum rooms, currently utilized for short-time stays immediately following birth, will be converted to acute care rooms; and
- 16 additional neonatal intensive care unit (NICU) beds will be added to the existing unit.

The second phase of the project will not be implemented until the completion of the construction of additional medical office space to be built directly behind the existing physical plant. This phase will require the de-licensure of 11 of the 15 beds previously utilized as 23-hour beds, and the licensure of 62 new acute care beds to be located on the newly renovated third and fourth floors. In addition, four (4) additional NICU beds will be licensed at that time, to complete the full complement of 90 additional beds. Therefore, the applicant expects that the requested beds will not be placed into service until September 2005.

The project will increase the need for ancillary services, such as radiology and imaging, which the applicant addresses in its application for Vision 2003 Facility Expansion and Renovation, also pending before the Department.

The applicant projects the addition of 118 FTE personnel, at an estimated annual cost of \$51,777,213. River Oaks Hospital proposes to recruit any needed personnel from its present recruiting efforts and affiliation arrangements during the ordinary course of business.

The estimated capital expenditure for this project is \$11,299,902, and of that amount, 35 percent is projected for renovation, 51 percent for fixed and non-fixed equipment, and the remaining 13 percent is for fees and contingency reserve.

The Division of Licensure and Certification has approved the site for the addition of acute care beds. As stated above, Phase I of the project will be implemented within 30 days of CON approval, and the entire 90 beds are expected to be placed in service by September 2005.

## **II. TYPE OF REVIEW REQUIRED**

Projects which propose the addition of acute care beds are reviewed in accordance with Section 41-7-191, subparagraphs (1) (c), and (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 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 June 4, 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**

The Plan stipulates that an applicant shall document the need for the proposed project. In addition, the applicant proposing to add hospital beds shall document that the facility has maintained an occupancy rate of at least 70 percent for the most recent two (2) years.

The applicant submits that River Oaks Hospital has experienced explosive growth during the four most recent years. This growth has impacted all departments of the hospital including radiology, inpatient and outpatient surgery, obstetrics, the neonatal intensive care unit, emergency services and therapy.

River Oaks attributes the growth and utilization of facilities and services at the hospital to the following reasons:

- The addition of 36 new physicians to the hospital's medical staff since December 1, 1999;
- The institution of new services, treating patients with higher acuity and utilizing more sophisticated and complicated procedures and equipment, such as diagnostic cardiac catheterization and angiography at the Facility;
- The provision of higher acuity services by River Oaks Hospital has resulted in the average length of stay for patients increasing, thereby increasing the utilization of acute care beds;
- Between 1990 and 2000, the population of Rankin County grew by 32.3 percent to 110,738 and is expected to grow to approximately 143,462 residents by 2010;
- The hospital's emergency services department, which directly drives utilization of inpatient, acute care services, has experienced continued and steady growth; and
- The 44 percent increase in the number of deliveries, which results in greater utilization of acute care and neonatal intensive care beds.

The applicant submits that the average daily census at River Oaks Hospital has increased from 68 patients per day in Fiscal Year 1999 to 85 patients per day in Fiscal Year 2002. As a result of this increase, River Oaks Hospital has exceeded 70 percent occupancy for the past 2 fiscal years. As shown on page one of this staff analysis, River Oaks maintained an average occupancy rate of 73.53 percent for Fiscal Year 2001, and a preliminary average occupancy rate of 77.39 percent for Fiscal Year 2002.

River Oaks utilized a linear regression analysis of the actual, historical total patient days for FY 1999 through FY 2003 to project future values. The facility experienced a growth from an ADC of 68 in FY 1999 to an ADC of 85 in FY 2002. Applicant believes that if River Oaks continues to experience this same rate of growth between FY 2003 and FY 2009, the hospital can reasonably project an ADC of 122 in FY 2008.

Applicant submits that if the hospital does not add acute care beds, this increase in utilization would result in the facility reaching a 111 percent average occupancy rate within this seven (7) year period. In contrast, applicant states that if River Oaks were to add 90 additional acute care beds, the FY 2008 occupancy rate would instead be at least 61 percent. The applicant proposes to initially add 35 acute care beds in FY 2004 and 55 additional acute care beds will be added in FY 2006.

Applicant further submits that as an operator of a very high volume surgical department, River Oaks experiences extreme variations in inpatient census. In FY 2002, the facility experienced average lows on Saturday and Sunday of 74 patients per day and average highs on Tuesday and Wednesday of 97 and 96 patients per day respectively. To adequately plan for the effective treatment of the facility's patient population, the applicant states it must prepare not only for the average utilization, but also for these weekly peaks.

According to the applicant, on the average Tuesday during FY 2002, River Oaks experienced a census of 97, or 12 patients per day higher than the average for the year. When this peak is applied to the average daily census from FY 1999 through FY 2002 and projected forward to FY 2008, the facility can expect an ADC of 134 and a peak occupancy of 67 percent in FY 2008. Applicant expects that soon after the implementation of the full complement of acute care beds, the facility will almost exceed 70 percent occupancy at least once per week.

Utilizing the same methodology, the applicant determined that in FY 2002, the facility experienced 100 percent peak utilization and a monthly average peak utilization of 110 occupied beds, or 25 more patients than the average for the year. Therefore, based on historical growth patterns, River Oaks projects an average monthly peak occupancy of 133 percent by FY 2008. However, with the addition of the requested 90 acute care beds, applicant projects this monthly peak utilization will be a more manageable 73 percent.

Applicant submits that beyond the expected natural growth rate based on historical utilization, River Oaks is expected to experience additional increases as a result of (1) the addition of new physicians to the medical staff; (2) the increase of the average length of stay ("ALOS") for patients due to the hospital's treatment of higher acuity patients; (3) the natural effect of Rankin County's population growth, and (4) the impact of an expanded and growing emergency services department.

**Effect of Additional Medical Staff.** Applicant states that it has experienced success in recruiting new physicians to its medical staff due to its commitment to quality patient care, its location in rapidly growing Rankin County, and the addition of expanded, conveniently located office space. The hospital anticipates continued growth, especially in the practice area of obstetrics and gynecology. The addition of new OB/GYNs to the hospital staff will also

bring added utilization of the facility, both in ancillaries such as imaging and surgery, as well as in acute care services.

**Growth in Average Length of Stay.** In recent years the hospital has implemented more complex services such as diagnostic cardiac catheterization and angiography while adding specialists treating neurological problems and more advanced cardiology symptoms. As a result, River Oaks Hospital expects the average length of stay for its patients to increase.

Applicant submits that in FY 2002, River Oaks experienced an ALOS of 4.21. If the ALOS were to increase by .03 per year from Fiscal Year 2002 to Fiscal Year 2008, the hospital would experience an increase of 1,900 patient days per year by FY 2008.

**Effect of Rankin County's Population Growth.** Rankin County's 2005 population projection is 129,142. Applicant states that according to the Center for Policy Research and Planning, Mississippi Institutions for Higher Learning, Rankin County's population is expected to grow to 143,462 by 2010. Based on this growth rate, the applicant projected expected population for each interim year.

Applicant submits that in FY 2002, River Oaks experienced 31,108 patient days of acute care utilization, while Rankin County had a projected population of 114,010. As a result, the hospital provided approximately 272.54 patient days per 1,000 residents. Advancing this methodology, River Oaks expects to experience an additional 5,933 patient days per year by FY 2008 as a result of the population growth.

**Impact of Growing Emergency Services Department.** Emergency visits increased at River Oaks from 15,715 in FY 2000 to 17,470 in FY 2002. If this same growth were to continue, River Oaks anticipates servicing approximately 22,734 patients by FY 2008.

In FY 2002, 15.4 percent of all emergency department visits resulted in an inpatient visit, generating, in that year, approximately 11,326 patient days for the hospital. If the current growth continues, the applicant expects that the emergency department utilization will further impact the facility's utilization.

**Impact of Continued Growth of Obstetrical Services.** Applicant submits that between FY 2000 and FY 2002, River Oaks recognized an explosive increase in obstetrical utilization growing from 1,307 deliveries in FY 2000 to 1,887 in FY 2002. If this 15 percent growth continued, within three years almost 3,000 deliveries will occur at the hospital. This continued growth will further drive additional acute care utilization, as well as promote further use of the proposed expanded neonatal intermediate care unit.

Based on anticipated growth in medical staff, ALOS and population, River Oaks projects a cumulative increase in patient days of approximately 10,233 per year by FY 2008. As a result, applicant states the hospital can potentially experience an average daily census exceeding 150 within three (3) years of the full complement of acute care beds being implemented. Even with the addition of the requested 90 acute care beds, applicant states that the facility could face occupancy rates in the high 70 percent range.

In addition to the statistical analysis provided, the hospital presented subjective substantiation for the need for expanded capabilities at River Oaks through quotes of six (6) physician members of East Lakeland OB-GYN Associates, PA, the Flowood mayor, and by three (3) physician members of Woman's Health Associates, PLLC.

**SHP Criterion 3 - Charity/Indigent Care**

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

**SHP Criterion 4 - Reasonable Cost**

Applicant submits 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 renovation cost per square foot for this project to be \$109.86. Equipment costs do not exceed 15 percent of the median cost for similar projects approved by the Department.

**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 to the renovation of the third and fourth floors of The Suites, and the addition of 90 acute care beds, including the construction of a new acute care patient wing to the north of the facility, and maintaining the status quo. Construction of a new acute care patient wing to the north of the facility was rejected due to the capital expense associated with the proposed project and due to the availability of potential acute care space immediately adjacent to the existing acute care units. Applicant rejected the alternative to maintain the status quo due to the high utilization of acute care services at the hospital.

Comments were received from attorneys for St. Dominic-Jackson Memorial Hospital and Mississippi Baptist Medical Center which suggested that still another alternative exists for the addition of beds at River Oaks. This alternative is to relocate beds from one of its other facilities in Rankin County which are currently running low occupancy rates. Each attorney pointed out the excess bed capacity in the service area. Based on the formula in the Plan, the Jackson Metropolitan area has an excess of approximately 746 beds (excluding UMC). General Hospital Service Area 3, as a whole, has an excess of approximately 1241 beds.

In response to the opponents' comments, River Oaks proposes to modify its application by reduction as follows:

- a) Reduce the requested number of new acute care beds from 90 to 57; and
- b) Relocate 33 acute care beds from Woman's Hospital to River Oaks Hospital.

**GR Criterion 4 - Economic Viability**

The applicant projects excess of revenues over expenses of \$42,977,792 the first year, \$49,194,007 the second year, and \$55,063,441 the third year of operation. Applicant submits that since the project will not be fully implemented until FY 2006, the Projected Operating Statement sets forth projections for fiscal years 2006 through 2008.

**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. Applicant anticipates that there will be no adverse impact on any other facilities or services.

However, attorneys for St. Dominic and Mississippi Baptist Medical Center submitted written comments which assert that the project is an unnecessary duplication of health resources in that the service area currently has excess bed capacity.

The application included four letters of support for the project.

**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 to the delivery of these health care services to patients of River Oaks Hospital.

As stated earlier in this staff analysis, Mississippi Baptist Medical Center and St. Dominic submitted comments of opposition to the project, which alluded to the over bedded service area. The applicant responded with a willingness to accept approval by reduction to 57 new beds and the relocation of 33 beds from an existing facility owned by HMA.

**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**

Construction Cost - Renovation	\$ 3,998,296
Total Fixed Equipment	2,785,450
Total Non-Fixed Equipment	3,021,696
Fees	956,369
Contingency Reserve	538,091
<b>Total Capital Expenditure</b>	<b>\$11,299,902</b>

The capital expenditure proposed is for the renovation of approximately 50,000 square feet of space to accommodate 90 additional acute care beds. The cost of renovation is estimated to be \$165.56 per square foot. The \$125,554 cost per bed is between the median (\$106,000) and 3/4 (\$170,000) quadrants 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	\$51,777,213	\$ 58,921,694	\$65,667,610
Professional Fees	261,510	297,594	331,666
Supplies & Misc.	39,319,511	44,745,016	49,867,850
Purchased Services	8,366,563	9,521,024	10,611,081
Interest	1,218,040	1,386,111	1,544,806
Bad Debt	6,729,054	7,657,563	8,534,274
Depr. & Amortization	<u>6,245,749</u>	<u>6,821,648</u>	<u>7,365,419</u>
<b>Total Expenses</b>	<b>\$113,917,640</b>	<b>\$129,350,650</b>	<b>\$143,922,706</b>
Gross Pt. Revenue	\$318,220,063	\$362,143,672	\$403,616,938
Deductions (-)	<u>(161,374,631)</u>	<u>(183,649,016)</u>	<u>(204,680,791)</u>
<b>Net Patient Rev.</b>	<b>\$156,845,432</b>	<b>\$178,494,656</b>	<b>\$198,936,147</b>
Other Revenue	<b>\$50,000</b>	<b>\$50,000</b>	<b>\$50,000</b>
<b>Excess Rev./Exp.</b>	<b>\$ 42,977,792</b>	<b>\$ 49,194,006</b>	<b>\$ 55,063,441</b>
Patient Days	46,627	51,022	54,678
Occupancy Rate	63.9%	69.9%	74.9%
Cost/Patient Day	\$ 2,443	\$ 2,535	\$ 2,632
Charge/Patient Day	\$ 6,825	\$ 7,098	\$ 7,382

D. Cost to Medicare/Medicaid

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

Patient Mix	Utilization Percentage	First Year Cost
Medicaid	11.0	\$ 12,530,940
Medicare	30.0	34,175,292
Other Payors	<u>59.0</u>	<u>67,211,408</u>
<b>Total</b>	<b>100.0</b>	<b>\$ 113,917,640</b>

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, however, no written comments were received from the Division of Medicaid.

**VI. CONCLUSION AND RECOMMENDATION**

This project is in substantial compliance with the criteria and standards for renovation and addition of hospital beds, 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 has adequately documented the need for the proposed project, based on growth and utilization of facilities and services and an occupancy rate in excess of 70 percent for the most recent two years. Opposition to the project alluded to the over bedded hospital service area, for which applicant responded with a willingness to accept modification of the project by reduction.

Therefore, the Division of Health Planning and Resource Development recommends approval of the application by River Oaks Hospital, Inc. for the Vision 2003 Addition of 90 Acute Care Beds, by reduction to 57 new acute care beds and the relocation of 33 acute care beds from Woman's Hospital.