

DIVISION OF HEALTH PLANNING
AND RESOURCE DEVELOPMENT
AUGUST 2003

CON REVIEW HG-RC-0503-014
HANCOCK MEDICAL CENTER
CONSTRUCTION, RENOVATION AND EXPANSION
OF OUTPATIENT AND EMERGENCY SERVICES
CAPITAL EXPENDITURE: \$8,727,548
LOCATION: BAY ST. LOUIS, MISSISSIPPI

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Hancock Medical Center (HMC) is a 104-bed short-term, acute care, not-for profit hospital owned by Hancock County, Mississippi. The hospital is governed by a seven member Board of Trustees appointed by the Hancock County Board of Supervisors.

The occupancy rates, average lengths of stay (ALOS), and Medicaid utilization rates for the three most recent fiscal years at HMC are as follows (medical/surgical beds only):

**Utilization Data
Hancock Medical Center**

| Fiscal Year | Occupancy Rate (%) | ALOS (Days) | Medicaid Utilization Rate (%) |
|--------------------|---------------------------|--------------------|--------------------------------------|
| 2000 | 51.98 | 4.39 | 15 |
| 2001 | 60.84 | 4.27 | 12 |
| 2002 | 53.66 | 4.48 | 15 |

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

B. Project Description

Hancock Medical Center requests Certificate of Need (CON) authority for construction, renovation, relocation, and expansion of outpatient and emergency services at HMC. The proposed project will encompass a total of 52,869 square feet of space, to include 3,511 square feet of new construction and 49,358 square feet of renovated space. The applicant indicates that the proposed project involves renovations to approximately 40,085 square feet of area on the first floor and 8,400 square feet on the third floor of the Hancock Medical Center. Areas to be renovated include: emergency department, imaging department, surgical suite, outpatient services, administrative/medical records, kitchen/dining, cardiopulmonary, pharmacy, inpatient rehab, inpatient room relocation/nursing station support, chapel, gift shop, laboratory, materials management, outpatient lobby, offices, file storage, intensive care unit (modifications to 2 existing rooms), and public/staff corridors within/adjoining renovated areas. Also included is new construction of approximately 3,511 square feet to accommodate a new outpatient entrance, along with associated reception and waiting areas, expanded dining area, and new emergency department and north west entrance walk-in vestibules.

The following profile the new construction and renovation areas of the proposed project:

**HMC
New Construction**

Estimated at 3,511 square feet

- * Emergency department - new construction of approximately **156** square feet for new emergency department walk-in entrance and entry vestibule.
- * Outpatient entry lobby/vestibule - new construction of approximately **1,850** square feet for new entry vestibule, waiting areas and reception/security.
- * Dining/waiting - new construction of approximately **960** square feet for dining expansion/overflow lobby waiting.
- * Ambulance vestibule/drop-off canopy - new construction of approximately **435** square feet off new entry vestibule, decontamination shower and patient drop-off canopy.
- * Gift shop vestibule - new construction of approximately **110** square feet for new entry vestibule.

HMC
Renovation

Estimated at 49,358 square feet

- * Administration/gift shop/dining (renovation of approximately **4,357** square feet).
- * Cardiac rehab, medical records, outpatient services (renovation of approximately **7,694** square feet).
- * Pre-post op/PACU/Surgery (renovation of approximately **7,274** square feet).
- * Surgical suite/central sterile supply/imaging (renovation of approximately **5,635** square feet).
- * Inpatient PT/OT/human resources/physician on call (renovation of approximately **2,596** square feet).
- * Medical nursing unit (renovation of approximately **3,938** square feet).
- * Medical nursing unit (renovation of approximately **1,570** square feet).
- * Lab expansion/materials management (renovation of approximately **1,219** square feet).
- * Emergency department/cardiopulmonary (renovation of approximately **6,675** square feet).
- * Pharmacy/offices/classroom (renovation of approximately **8,400** square feet).

According to the applicant, no new beds are requested in this proposed project; the most cost effective alternative for this need is the conversion of two existing beds located in the same nursing unit to intensive care beds. There will be an increase in ICU beds from 10 to 12 licensed beds and a decrease in PCU bed count from 2 to 0 beds as a result of the proposed project.

According to HMC, any increase in the utilization of ancillary and support services at the hospital will be the result of increases in volume. Neither costs nor charges of any ancillary or support services are proposed to increase or decrease at this time due to the proposed project.

The total proposed capital expenditure is **\$8,727,548** and of that amount, approximately 5.89 percent is for new construction; 69 percent for renovation; 11 percent for fixed equipment; 4.17percent for non-fixed equipment; 3 percent for site preparation; 3.05 percent for fees (architectural, consultant, etc.); and 11.17 percent for contingency reserve. The applicant indicates that the proposed capital expenditure will be funded from private foundations (12 percent) and accumulated cash reserves (88 percent) for the proposed project.

The applicant indicates that a portion of the capital expenditure for the proposed project will be obligated immediately upon Certificate of Need approval and the remainder will be obligated incrementally as the project progresses. It is anticipated that the project will take 36 months to complete.

The application contains a letter from the MSDH Division of Health Facilities Licensure and Certification approving the site for the proposed project.

II. TYPE OF REVIEW REQUIRED

Construction/renovation/relocation and expansion projects are reviewed in accordance with Sections 41-7-191, subparagraphs (1) (e), (f) and (j), and Section 41-7-173, (c) (iii) of the 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, 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 on September 4 , 2003.

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

A. State Health Plan (SHP)

The 2003 State Health Plan addresses policy statements, criteria and standards which an applicant is required to meet before receiving CON authority for construction/renovation/relocation and expansion projects .

SHP Criterion 1 - Need

The need criterion contained in the 2003 State Health Plan states that an "applicant shall document the need for the proposed project." "Documentation may consist of, but is not limited to, citing of licensure or regulatory code deficiencies, institutional long-term plans (duly adopted by the governing board), recommendations made by consulting firms, and deficiencies cited by accreditation agencies (JCAHCO, CAP, etc.)."

According to Hancock Medical Center, the hospital worked with American Health Facilities Development to develop a comprehensive master facilities plan. The firm of Dan and Dean/Associates used this Master Plan to develop the proposed project. HMC indicates that the physical plant is in need of modernization to remain safe as well as competitive in the marketplace. The applicant believes that renovation and modernization is a preferred method of improving services as outlined in the Plan. HMC believes that there is continuing need to serve the medically under-served populations in Hancock County. The services provided as part of this project will improve the existing services provided already in intensive care, outpatient care , and emergency care. The applicant asserts that being able to serve greater numbers of patients efficiently keeps the hospital in compliance with the State Health Plan and the goals of providing cost-effective care convenient to the population.

According to Hancock Medical Center, overcrowding in the emergency department will be alleviated with the proposed renovations, addressing an important element in providing services in the State Trauma Plan. Accessibility will be improved, and the hospital will continue to service Medicaid and charity care clients.

SHP Criterion 3 - Charity/Indigent Care

The applicant asserts that HMC will provide charity (3.24 percent) and indigent (3.24 percent) care to its patients at the hospital.

SHP Criterion 4 - Project Cost

Hancock Medical Center submits that the cost of the proposed project's new construction will be \$242 per square foot. Means Building Construction Cost Data 2003 shows the high range per square foot cost of new construction to be \$241.

According to the applicant, the cost of equipment for the proposed project was prorated based on square footage allocation - seven percent new construction and 93 percent renovation.

B. General Review (GR) Criteria

Chapter 8 of the Mississippi Certificate of Need Review Manual, May 13, 2000 revisions, addresses general criteria by which all CON applications are reviewed. This application is in substantial compliance with general review criteria.

GR Criterion 3 - Availability of Alternatives

According to the applicant, alternatives considered included demolition of existing physical plant, new construction off site, and leasing of facilities nearby, with the proposed project deemed to be the most efficient and efficacious use of community resources for these services.

GR Criterion 4 - Economic Viability

Three year operating projections reflect a first year net profit of \$1,336,222, a second year profit of \$2,196,847, and a third year profit of \$2,319,616, respectively for the proposed project.

The application contains a report from an independent auditor expressing the financial position of HMC.

GR Criterion 5 - Need

HMC indicates that aging of the physical plant and the inefficiencies inherent in the existing design affect the hospital's ability to conserve energy and provide for environmental protection.

The facilities are currently overcrowded due to design limitations. This affects HMC's ability to provide emergency care and convenient outpatient services.

The applicant asserts that as the population in the HMC area increases, it is important that the hospital provide services to all segments of the population, and that the services be modern, convenient, and affordable. HMC has a demonstrated track record of providing services to low income persons, racial and ethnic minorities, women, handicapped persons, the elderly, and other under-served groups. The applicant believes that these same vulnerable populations deserve access to care close to their homes, by skilled staff, with modern facilities and equipment. The proposed project accomplishes those goals and also expands the hospital's ability to better establish outreach wellness programs that teach the hospital's community to live healthier and more productive lives.

HMC submits that the increased patient convenience and comfort factors should help maintain existing market share, with increased utilization more a function of population growth and aging.

The applicant believes that failure to implement this proposed project could include financial difficulties on the part of the hospital, and loss of service to medically under-served populations that rely on HMC for their care. Long term, this project will help provide access to care for local community residents, medically under-served populations, and allow continued improvement in the health status of Hancock County.

The application contained seven (7) letters of support/comments for the project.

GR Criterion 6 - Access to the Facility or Service

According to HMC, all residents of the hospital service area, including Medicaid recipients, charity/medically indigent, racial and ethnic minorities, women, elderly, and handicapped persons have and will continue to have, access to HMC. HMC asserts that the utilization by the referenced groups is expected to continue as in the past.

According to the applicant, the percentage of gross patient revenue (GPR) and actual dollar amount of health care provided to medically indigent patients for the last three years are as follows:

| Fiscal Year | GPR of Medically Indigent Patients | % |
|-------------|------------------------------------|------|
| 2000 | \$1,744,622 | 2.09 |
| 2001 | \$1,656,650 | 1.71 |
| 2002 | \$1,366,934 | 1.31 |
| 2003 | \$1,743,027 | 3.24 |

GR Criterion 7 - Information Requirement

The applicant indicates that it will record and maintain the requested information and make it available to the Mississippi State Department of Health within 15 days of request.

GR Criterion 8 - Relationship to Existing Health Care System

Hancock Medical Center is located in General Hospital Service Area 7 (GHSA), which contains 1,621 licensed acute care beds in the service area. This application does not propose new services in General Hospital Service Area 7.

Because no new services will be offered as a result of this project, staff concludes that this project should have no adverse affect on other providers in the referenced service area.

GR Criterion 9 - Availability of Resources

The applicant anticipates no additional FTE personnel for this proposed project.

GR Criterion 10 - Relationship to Ancillary or Support Services

The applicant states that any increase in the utilization of ancillary and support services at HMC will be the result of increases in volume. Neither costs nor charges of any ancillary or support services are proposed to increase or decrease at this time due to this project.

GR Criterion 16 - Quality of Care

Hancock Medical Center 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.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

| | |
|---|---------------------|
| Construction - New | \$ 482,886 |
| Fixed Equipment | \$ 884,713 |
| Non-Fixed Equipment | \$ 342,177 |
| Fees (Architectural, Consultant, etc.) | \$ 250,000 |
| Contingency Reserve | \$ 916,331 |
| Renovation | \$ 5,625,991 |
| Site Preparation | \$ 225,450 |
| Total Capital Expenditure | \$ 8,727,548 |

The above estimated capital expenditure is proposed for construction, renovation, and expansion of outpatient and emergency services at HMC. The proposed project will add approximately 3,511 square feet of new space at an estimated cost of \$242 per square foot and 49,358 square feet of renovated space at a cost of \$152.63 per square foot. Means Building Construction Cost Data 2003 shows the high range per square foot cost of new construction to be \$241. The proposal also includes the purchase of fixed and non-fixed equipment.

B. Method of Financing

The applicant proposes to finance the proposed capital expenditure from private foundations (12 percent) and accumulated cash reserves (88 percent) for the proposed project.

The applicant provided a report from an independent auditor expressing the financial ability of HMC to fund the project.

C. *Effect on Operating Cost

The applicant projects the following utilization and results from operation for the first three years following completion of the proposed project:

Utilization

| Patient Days | Outpatient Visits | Emergency Room Visits | Year |
|--------------|-------------------|-----------------------|------|
| 22,173 | 32,802 | 25,262 | 2004 |
| 23,060 | 34,114 | 26,272 | 2005 |
| 23,982 | 35,478 | 27,23 | 2006 |

| | | | |
|----------------|---------|---------|---------|
| Cost/Pt. Day | \$1,774 | \$1,757 | \$1,740 |
| Charge/Pt. Day | \$5,124 | \$5,174 | \$5,224 |

Revenue

| | | | |
|-------------------|---------------------|---------------------|---------------------|
| Total Pt. Rev. | \$113,624,169 | \$119,305,377 | \$125,270,646 |
| Deductions | \$(73,314,824) | \$(76,980,565) | \$(81,599,399) |
| Oper. Costs | \$(39,338,338) | \$(40,518,488) | \$(41,734,043) |
| Non-Oper Income | \$ 365,215 | \$ 390,523 | \$ 382,412 |
| Net Income | \$ 1,336,222 | \$ 2,196,847 | \$ 2,319,616 |

*According to HMC, the proposed project is focused on upgrading the facility and improving the ability of patients to access existing services without increasing operational costs. However, the applicant projects a straight line depreciation cost of \$349,650 for the proposed project.

D. Cost to Medicaid/Medicare

Hancock Medical Center projects no increased cost to the third party payors for the proposed project. The Division of Medicaid projects no additional cost to the Division of Medicaid for the proposed project.

The applicant projects 3.4 percent of gross patient revenues to be provided to charity/medically indigent, and 8.32 percent to bad debt patients for the first years of operation.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid indicates that the methodology for paying outpatient services as outlined in the Plan does not cover this type of expenditure, and the Division projects no additional cost to the Division of Medicaid as a result of the proposed project.

VI. CONCLUSION AND RECOMMENDATION

The project is in substantial compliance with the criteria and standards for construction, renovation, relocation and expansion as contained in the 2003 State Health Plan; Chapter 8 of the Certificate of Need Review Manual, May 13, 2000 revisions; 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 Hancock Medical Center.