

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

**CON Review HG-RC-0803-023
Singing River Hospital System d/b/a Ocean Springs Hospital
Construction/Expansion and Relocation of 60 Acute Care Beds
Capital Expenditure: \$16,781,519
Location: Ocean Springs, Mississippi**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Singing River Hospital System ("SRHS") is composed of Singing River Hospital (404 licensed beds) in Pascagoula, Mississippi, and Ocean Springs Hospital (136 licensed beds) in Ocean Springs, Mississippi. Both hospitals are voluntary, not-for-profit institutions, publicly owned and operated by the citizens of Jackson County, Mississippi. SRHS is governed by a nine-member Board of Trustees appointed by the Jackson County Board of Supervisors. Members are appointed as representatives from each District, with two members being appointed from the county at-large. SRHS is fully accredited by the Joint Commission on Accreditation of Healthcare Organizations, has over 200 physicians on its respective medical staffs, and employs approximately 2,000 people, making it one of the largest health care systems in the state.

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

**Ocean Springs Hospital
Utilization Data**

Year	Occupancy Rate (%)	ALOS (Days)	Medicaid* Utilization Rate (%)
2000	59.04	5.17	9.32
2001	66.37	4.96	8.36
2002	63.89	4.74	10.15

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

B. Project Description

SRHS requests CON authority to transfer and relocate 60 acute care beds from Singing River Hospital to Ocean Springs Hospital, the construction of an East Tower Addition consisting

of approximately 70,400 square feet, and renovation of the First Floor of the hospital estimated to be 26,600 square feet. The applicant outlines the project as following:

First Floor Renovation/Construction

New construction would include the following:

- Classroom/Education and Conference Center (4,860 square feet);
- Congestive Heart Failure Clinic (2,470 square feet);
- Cardiopulmonary Expansion (1,650 square feet)
- Medical Records Department (3,620 square feet)
- Admitting/Registration (2,050 square feet)
- Support Space (3,350 square feet)
- Lobby/Public Areas and General Circulation (5,930 square feet)

Renovated areas on the First Floor would include the following:

- Existing Kitchen/Cafeteria to appropriately accommodate dining services at the hospital;
- Outpatient Diagnostic Imaging Department, including the Women's Imaging areas, Cardiac Rehabilitation, Wound Care, Phlebotomy and Cardiopulmonary.

East Tower Addition

The East Tower Addition would entail three floors of new construction (25,000 square feet on the First Floor and 21,600 square feet on each of the Second and Third Floors). The Second and Third Floors would involve the addition of space for 30 patient beds on each of the floors to accommodate the 60 acute care bed transfer from Singing River Hospital. Applicant intends that the Second Floor 30-bed patient wing will serve as an acute care Cardiac Floor, while the Third Floor 30-bed patient wing will serve primarily as an acute care Medical Cardiology Floor. A corridor will be constructed to connect the Second and Third Floors of the new addition to the existing South Wing (480 square feet for each level) and a corridor of approximately 1,250 square feet will connect the Second Floor of the new addition to the Second Floor of the existing West Wing.

SRHS submits that a significant amount of planning and coordination has been undertaken by the Management Team of Ocean Springs Hospital and RTKL, the architectural firm, to ensure the ancillary and support services can support the additional bed capacity at the hospital. Much of the renovation and construction of the First Floor is designed for enhancement of ancillary and support services to support the additional bed capacity.

The applicant projects the addition of 64.7 FTE personnel, at an estimated annual cost of \$2,091,841. Using an existing online applicant pool of over 7,000 applicants, the Hospital System states it has not had problems recruiting and retaining qualified applicants to its positions. SRHS has a formal relationship with the local community college within Jackson County, offering scholarships in the areas of registered nurses, licensed practical nurses, phlebotomy, unit coordinator, nursing assistants, and radiology.

The estimated capital expenditure for this project is \$16,781,519, and of that amount, 57 percent is for new construction, 13 percent for renovation, 9 percent for non-fixed equipment, 2 percent for site preparation, and the remaining 19 percent is for contingency reserve, architectural/consultant fees, and miscellaneous fees/testing.

The Division of Licensure and Certification has approved the site for the addition of acute care beds. Applicant expects to obligate the capital expenditure upon approval of the CON by the MSDH, and expects the project will be completed approximately 18 to 24 months thereafter.

II. TYPE OF REVIEW REQUIRED

Projects which propose the relocation of acute care beds, construction/expansion and renovation are reviewed in accordance with Section 41-7-191, subparagraphs (1)(b), (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 November 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

The Plan states 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 requests that 60 acute care beds be transferred and relocated from Singing River Hospital to Ocean Springs Hospital. Since both hospitals are part of Singing River Hospital System, no additional beds will be added to the System. The applicant has documented the need for the relocation of these beds. Applicant states that the Board of Trustees, Management Team and Medical Staff of SRHS developed a long-term strategic plan and a master facility plan to adequately meet the current and growing need for additional beds at Ocean Springs Hospital. In addition, an independent firm (Jennings, Ryan and Kolb) was consulted to develop a Need Analysis detailing the need for the transfer of acute care beds from Singing River Hospital to Ocean Springs Hospital.

The need analysis points out that the transfer of beds from the Singing River Hospital campus to the Ocean Springs Hospital campus of Singing River Hospital System is a logical and sound health planning decision for the following reasons:

1. Population is growing much more rapidly on the western side of Jackson County (Ocean Springs' primary service area) than on the eastern side (Singing River Hospital's primary service area).
2. Ocean Springs Hospital is experiencing particularly significant growth in its utilization.
3. Recent enhancements to Ocean Springs Hospital's array of services, such as open heart surgery, angioplasty, electrophysiology (EP) procedures, and bariatric services, will contribute to continued utilization growth and the resultant need for additional beds at Ocean Springs Hospital.
4. Moving beds from Pascagoula to Ocean Springs will more closely match bed availability to the population distribution, and thus meet patient demand for services at Ocean Springs Hospital.
5. Ocean Springs' medical/surgical occupancy rates have exceeded 70 percent for several years, and the hospital's overall occupancy is the highest of any facility in Mississippi being licensed for 100 to 150 beds.
6. Given the mix of beds, variations in census by season and by day of the week, and utilization of inpatient beds by observation patients, Ocean Springs stays close to full capacity, frequently exceeds capacity, and, without additional beds, will not have the ability to serve its growing patient base.

SHP Criterion 2 -Bed Service Transfer/Reallocation/Relocation

As stated above, the applicant is proposing a transfer and relocation of 60 acute care beds from Singing River Hospital to Ocean Springs Hospital, both within Singing River Hospital System; therefore, the total number of licensed beds for the System will not change. Ocean Springs Hospital has affirmed that it will meet all regulatory/licensure requirements for acute care beds upon the relocation of the acute care beds being transferred.

SHP Criterion 3 - Charity/Indigent Care

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

SHP Criterion 4 - Reasonable Cost

Applicant submits that the cost of the project is reasonable in comparison with the cost of similar projects approved by the Department. Applicant further submits that SRHS purchases most of its equipment through the Voluntary Hospitals of America group purchasing plans and routinely reviews its equipment costs to ensure the affordability of all equipment and supplies it purchases. All construction associated with the relocation of the beds will be accomplished through a bid process whereby the lowest qualified bidder will receive the construction work for every construction phase of the project.

SHP Criterion 5 - Square Footage Requirements

The applicant submits that the project compares favorably with state and national norms for similar projects. The gross square footage was identified in the project.

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 the Board of Trustees, Management Team, and Medical Staffs of Singing River Hospital System have developed a five-year strategic plan that is revisited annually in special sessions to modify and adjust the Plan according to the changes in the market and health care environment. The master facility plan, which was a result of the strategic planning process, was developed by RTKL with input from the Board of Trustees, Management Team and Medical Staffs of Singing River Hospital System. The development of the master facility plan for Ocean Springs Hospital and thus the request for additional bed capacity are in response to the current and growing community need for additional health care services in western Jackson County.

GR Criterion 3 - Availability of Alternatives

SRHS submits that the project is the result of planning and the identification of short and long-range goals for Singing River Hospital System. Applicant believes that the project as proposed is the most efficient method of meeting the needs of the health care community served by Singing River Hospital System.

Comments were received from attorneys for Biloxi Regional Medical Center in opposition to the project. Biloxi Regional Medical Center believes that the project, if approved, will adversely affect Biloxi Regional.

GR Criterion 4 - Economic Viability

The applicant projects excess of revenues over expenses of \$12,101,729 the first year, \$8,880,180 the second year, and \$10,614,333 the third year of operation. Therefore, the project appears to be economically viable.

GR Criterion 5 - Need for Service

The applicant submits that Singing River Hospital System does not discriminate against low income persons, racial and ethnic minorities, the elderly, women, handicapped persons, or any other under served groups in the provision of health care services.

The applicant further submits that the current utilization level of the acute care beds at Ocean Springs Hospital indicates the need for additional capacity at the hospital. The proposed project is intended to accommodate current and projected utilization of services for the patients of Singing River Hospital System's service area. Applicant expects no adverse impact on any other facilities or services due to the fact that no new services or licensed beds are being created as a result of the relocation of existing beds within Jackson County.

However, attorney for Biloxi Regional Medical Center submitted written comments which assert that the project will have an adverse impact on operations at Biloxi Regional Medical Center.

The application included more than 30 letters of support for the project from physicians, physician groups, banks, the Mayor of Ocean Springs, and the Jackson County Economic Development Foundation.

GR Criterion 6 - Accessibility

Applicant submits that with regard to the delivery of its health care services, Singing River Hospital System does not discriminate against the poor, the handicapped, women, elderly or members of racial or ethnic minorities. Applicant further submits that pursuant to the Hospital System's mission of maximizing accessibility and convenience of the services it provides, these patients will continue to have access to the services offered by SRHS. The applicant provided the following charity care during the past three fiscal years:

Projected FY 2003	2.5%	\$12,246,922
FY 2002	2.6%	\$11,040,000
FY 2001	2.8	\$10,856,000

SRHS projects that utilization by medically indigent patients will be consistent with historical indigent care utilization statistics experienced by Ocean Springs Hospital for those services.

GR Criterion 7 - Information Requirement

The applicant 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 expansion of the existing facilities and services Ocean Springs Hospital already provides to the community. Applicant believes that the project is vital to the delivery of acute care services to the residents of Singing River Hospital System's service area. No new services or licensed beds will be created as a result of the approval of this CON application.

GR Criterion 9 - Availability of Resources

The applicant submits that Ocean Springs Hospital has a staffing plan to accommodate the relocation of 60 beds from Singing River Hospital to Ocean Springs Hospital. Ocean Springs Hospital has 206 physicians on its Medical Staff, giving it a current physician-to-bed ratio of 1.51.

GR Criterion 16 - Quality of Care

Ocean Springs 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 - New	\$ 9,552,050
Construction Cost - Renovation	2,250,000
Total Non-Fixed Equipment	1,563,673
Site Preparation Cost	297,563
Fees	1,064,766
Contingency Reserve	1,209,962
Other (Misc. Fees/Testing)	843,505
Total Capital Expenditure	\$16,781,519

The capital expenditure proposed is for the construction of approximately 70,400 square feet of new space at an estimated cost of \$163.38 per square foot, and renovation of approximately 26,500 square feet of space at an estimated cost of \$108.38 per square foot. The *Means Construction Cost Data*, 2003 edition lists the cost of new construction of hospitals as ranging from \$136 to \$241 per square foot.

B. Method of Financing

The applicant proposes to finance the project with internally generated funds. 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	\$106,512,474	\$110,772,973	\$118,403,126
Professional Fees	11,696,424	12,047,317	12,512,346
Supplies & Misc.	39,217,708	40,394,239	44,958,484
Purchased Services	25,430,624	26,193,542	28,124,845
Interest	4,077,040	4,077,040	4,112,323
Bad Debt	36,925,626	39,879,676	46,589,700
Depr. & Amortization	<u>12,966,974</u>	<u>14,205,395</u>	<u>16,414,514</u>
Total Expenses	\$236,826,870	\$247,570,182	\$271,115,338
Gross Pt. Revenue	\$525,049,808	\$567,053,793	\$656,301,708
Deductions (-)	<u>(279,526,087)</u>	<u>(314,008,308)</u>	<u>(377,976,915)</u>
Net Patient Rev.	\$245,523,721	\$253,045,485	\$278,324,793
Other Revenue	\$3,404,878	\$3,404,878	\$3,404,873
Excess Rev./Exp.	\$ 12,101,729	\$ 8,880,180	\$ 10,614,328
Adj. Patient Days	146,325	150,715	161,265
Cost/Adj. Patient Day	\$ 1,618	\$ 1,643	\$ 1,681
Charge/Adj. Patient Day	\$ 3,588	\$ 3,762	\$ 4,070

Note: The applicant projects that the only costs added as a result of this project will be depreciation of \$832,096 and personnel of \$2,091,940, for a total of \$2,923,936.

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	12.0	\$ 350,872
Medicare	43.0	1,257,293
Other Payors	<u>45.0</u>	<u>1,315,771</u>
Total	100.0	\$ 2,923,936

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid estimates the increased annual cost to Medicaid for the capital expenditure proposed in this project to be \$226,320 for inpatient hospital services. The Division is not opposed to the approval of the project.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the criteria and standards for construction, renovation, expansion, 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.

This project proposes the relocation of 60 beds from one facility to another facility within the Singing River Hospital System, therefore, there will be no net gain of beds to the hospital bed inventory. The applicant adequately documented the need for such transfer of beds.

Therefore, the Division of Health Planning and Resource Development recommends approval of the application by Singing River Hospital System to relocate 60 acute care beds from Singing River Hospital to Ocean Springs Hospital.