

**Mississippi State Department of Health
Division of Health Planning & Resource Development
May 2009**

**CON Review HG-RC-0309-005
Oktibbeha County Hospital
Phase V: Four-Story Patient Tower Addition with New
Women's Center and Renovation Project
Capital Expenditure: \$32,347,390
Location: Starkville, Oktibbeha County, Mississippi**

Staff Analysis

I. PROJECT SUMMARY

A. Applicant Information

Oktibbeha County Hospital is a 96-bed county-owned hospital located in Starkville, Mississippi. The hospital is governed by a seven-member Board of Trustees, appointed by the Oktibbeha County Board of Supervisors.

The occupancy rates, average lengths of stay (ALOS), and the Medicaid utilization rates for Oktibbeha County Hospital's medical/surgical beds are as follows for fiscal years 2006 through 2008:

**Oktibbeha County Hospital
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2006	35.36	3.62	40%
2007	36.82	3.65	38%
2008	35.23	3.59	36%

Source: Division of Health Facilities Licensure and Certification,
MSDH

B. Project Description

Oktibbeha County Hospital requests certificate of need (CON) authority for a new four-story patient tower addition including a new women's center (Birthing and Nursery Suites), renovation of existing patient rooms and intensive care unit, and parking facilities.

The project will entail approximately 71,400 square feet of new construction and 30,600 square feet of renovation. A breakdown of new construction and renovation is as follows:

Description	New Construction Square Feet	Renovation Square Feet
<u>Patient Tower</u>		
Level 1 – Entrance Lobby, gift shop, community education facilities, and shell space	18,000	
Level 2 – 26 private patient rooms with requisite support spaces	17,300	
Level 3 – 26 private patient rooms with requisite support spaces	17,300	
Level 4 – State-of-the-art Women’s Center, Birthing Suite with 8 LDR rooms, 2 C-Section rooms, 2 C-Section Recovery Rooms, 3 triage rooms, and related support facilities.	17,300	
Penthouse	1,500	
<u>Existing Facility</u>		
Level 1 – West wing, modification to main entrance canopy		300
Level 2 – Interior demolition of undersized and inadequate patient rooms/toilets in the North and West wings and construction of 15 new patient rooms/bathrooms		8,910
Level 3 – Interior demolition of the North wing and construction of a new 6-bed ICU, ICU waiting, Chapel, and family quiet room		6,680
Level 4 – Interior demolition of undersized and inadequate patient rooms/toilets in the North and West wings and construction of 15 new patient room/bathrooms		
Roof – Renovation of four existing penthouses and replacement of four outdated and inefficient air-handling units		14,710
Total Square Footage	71,400	30,600

In addition, the project will include a parking garage consisting of approximately 140 spaces.

The applicant anticipates that the capital expenditure will be obligated upon approval or issuance of a CON and that the project will be complete by November 2011.

The applicant states that the final objectives for the project are to support the mission of the hospital – to respond to changing community needs and provide high quality health care to the people of the Golden Triangle and its seven-county service area; deliver quality community health services; generate a profit; provide additional treatment space for patient populations in need of care; enhance its reputation and name recognition; and improve an important community asset.

The application contained Resolutions by the Board of Trustees and the Mayor and Board of Aldermen of the City of Starkville, endorsing the project. In addition, over 61% of Oktibbeha County residents voted on November 4, 2008, approving the issuance of special obligation bonds to fund this project.

Oktibbeha County Hospital believes that hospital marketing, timely fulfillment of diagnostic and therapeutic orders, and recruitment and retention of physicians will all be adversely affected if this project is not completed. In addition, expansion and growth of much-needed services could not be accomplished and physicians and other caregivers would be forced to provide treatment in less than optimal conditions without the project. Oktibbeha County Hospital believes that the project will enable it to deliver quality medical care to the community for a long time.

The total proposed capital expenditure of \$32,347,390 will be financed by special-obligation bonds (authorized on November 4, 2008) in part, and the remaining portion will be covered by funded reserves of the hospital or short-term financing provided by the hospital.

According to the MSDH Division of Health Facilities Licensure and Certification, the site is acceptable for the proposed addition and renovation.

II. TYPE OF REVIEW REQUIRED

The Mississippi State Department of Health reviews applications for a capital expenditure in excess of \$2,000,000, under the applicable statutory requirements of Section 41-7-173, 41-7-191 (1) (j), 41-7-193, and 41-7-195, Mississippi Code of 1972, 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 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 June 8, 2009.

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

A. State Health Plan (SHP)

The *FY 2009 State Health Plan* contains criteria and standards which an applicant is required to meet prior to undertaking projects for construction, renovation, expansion, capital improvements, replacement, and addition of hospital beds when the capital expenditure exceeds \$2,000,000.

SHP Criterion 1 – Need

When projects do not involve the addition of any acute care beds, the applicant's documentation of need for the project 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 consultant firms, and deficiencies cited by accreditation agencies (JCAHO, CAP, etc.). In addition, for projects which involve construction, renovation, or expansion of emergency

department facilities, the applicant shall include a statement indicating whether the hospital will participate in the statewide trauma system and describe the level of participation, if any.

The application contained the portion of Oktribbeha County Hospital's 2006-2011 Strategic Plan which addresses the facility's plans for expansion. The hospital participates in the statewide trauma system as a Level III Trauma Center.

In addition, the applicant submits that the current hospital was completed in 1973 and has undergone three prior additions in 35 years. The last construction project was a \$30M plus project, completed in 2006. The Board has since determined that three areas, each very important to the services that the hospital provides, are outdated and in significant need of improvements: (1) the original 1973 patient rooms, (2) the obstetrical services area including the labor and delivery and nursery areas, and (3) parking facilities.

Over the past 35 years the applicant states that the hospital has funded in excess of \$77M in additions, expansions, and improvements without the use of county tax dollars; however, the patient rooms have had only cosmetic repairs. The Board of Trustees determined that to better serve the community the hospital must make improvements to original 1973 Hill-Burton patient rooms. The applicant proposes to renovate and enlarge all patient rooms and construct a four-story patient tower to offset the displacement that will occur due to the larger rooms. With the addition of the tower the hospital will be able to maintain its current capacity of 96 licensed beds.

The applicant further states that increasing demand for obstetrical services and heightened patient expectations have created a need for renovation of this area. The applicant estimates that the hospital currently delivers over 1,000 babies per year.

The hospital has a six-bed ICU located on the hospital's fourth floor. This unit will be moved to the third floor, bringing it closer to operating room facilities located on the second floor.

SHP Criterion 2 – Bed Service Transfer/Reallocation/Relocation

No beds are proposed to be transferred or reallocated; however, the applicant proposes the renovation of existing patient rooms by enlargement. Because of space limitations in the existing building, some rooms will be relocated to a new patient tower to be connected to the existing building. The applicant affirms that it will meet all regulatory/licensure requirements for the beds that are being renovated and relocated to the new tower.

SHP Criterion 3 – Charity/Indigent Care

Oktribbeha affirms that it will continue to provide a reasonable amount of indigent/charity care as described in Chapter I of the Plan.

SHP Criterion 4 – Reasonableness of Cost

The applicant estimates that the project will cost \$224.54 per square foot for new construction and \$175.49 per square foot for renovation. These costs are within the cost range listed in the *Means Building Construction Cost Data, 2009 Edition*. In addition, these costs compare favorably with other recent Mississippi healthcare projects reviewed by MSDH.

In addition, the applicant submits that the project costs for fixed and non-fixed equipment are \$1,534,390 which calculates to 4.7% of the total capital expenditures for the project. These costs also compare favorably to similar projects reviewed by the Department.

SHP Criterion 5 – Floor Areas and Space Requirements

Oktibbeha submits that the project is being designed to meet or exceed the Minimum Standards for Design and Construction as set forth by the Division of Licensure and Certification and the Guidelines for Design and Construction of Health Care Facilities as published by the Facility Guidelines Institute of the American Institute of Architects Academy of Architecture for Health.

According to the applicant, the primary restraint imposed on the proposed project as a result of the architectural design of the existing facility is with respect to the 13-foot floor-to-floor height of the existing patient bed tower to which the expansion must connect. The applicant states that this dimension limits the amount of above ceiling space for HVAC ductwork, chilled water and fire sprinkler system piping, etc. Therefore, a flat slab concrete frame structural system has been proposed in lieu of steel frame thereby increasing the cost of the project.

SHP Criterion 6 – Renovation vs. Replacement Facility

The applicant submits that the cost of this project, \$32,347,390, is far less than 85% of the cost of a replacement facility this size. The Department approved the replacement of a 95-bed acute care facility in Picayune with a capital expenditure of \$75,829,000.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, Revised February 23, 2008*, addresses general criteria by which all CON applications are reviewed.

GR Criterion 1 – Consistency with the State Health Plan

This project has been reviewed for consistency with the State Health Plan and was found to be in compliance therewith.

GR Criterion 2 - Long Range Plan

The applicant submits that the proposed project is consistent with the hospital's Five Year (2006-2011) Strategic Plan. It further states that this project is the culmination of both a formal planning process and a response to identified needs.

GR Criterion 3 – Availability of Alternatives

The applicant considered and rejected three alternatives to the renovation and construction project as follows:

Status Quo. The applicant states that the only advantage of maintaining the "status quo" would be to delay the capital expenditure since all of the functional areas and systems incorporated in the project must be upgraded and/or expanded in order for the hospital to be able to provide adequate services to a growing service area population. In addition, the applicant states that the hospital's medical staff has increased by 19.2% (from 83 to 99) since the last major expansion in 2002.

Renovation of the existing building only. According to the applicant, the existing building is not large enough to accommodate the enlargements of, and improvements to, the service areas that are currently inadequate for provision of patient care, i.e. obstetrical services, intensive care, and patient rooms.

A new building to house all services. The applicant states that the associated capital expenditure coupled with the issue of disposition of the vacated existing facility render this option financially not feasible.

The applicant determined that renovation of the existing building and construction of an addition is the only viable course of action. In conjunction with Dean and Dean/Associates Architects, the applicant states it considered several combinations of new construction coupled with renovation. The proposed project represents the most functional, efficient, and cost-effective blend of new construction and renovation.

GR Criterion 4 - Economic Viability

Based on the three-year projected operating statement contained in the application, the applicant will realize net losses on this project of \$1,354,990 the first year, \$1,593,755 the second year, and \$1,581,173 the third year of operation. However, the overall facility will have net incomes of \$6,084,875, \$7,540,875, and \$9,372,846 the first, second, and third years, respectively (see Attachment 1A). The financial feasibility study submitted with the application indicates that the applicant has the ability to undertake this project.

Proposed Charges: The applicant states that the proposed charges for the hospital's services will continue to be reasonably comparable to similar charges in the area. It states that the hospital has historically priced its services in order to remain competitive with hospitals in the primary and secondary service area that provide similar levels of patient care services.

Projected Levels of Utilization: The applicant's levels of utilization and projected levels of utilization are consistent with those experienced by similar facilities in the service area

Project's Financial Feasibility Study: The application contained a feasibility study prepared by the Associate Administrator/CFO of Oktibbeha County Hospital attesting to the feasibility of the project. In addition, the application contained a letter from Government Consultants, Inc. regarding the 25-year financing of the \$27.5 million Special Obligation Bonds, Series 2009, through the Mississippi Development Bank at a projected rate of 5.50% with the debt service schedule.

GR Criterion 5 - Need for the Project

Access by Population Served: The applicant states that the renovated areas will be accessible to all residents of the service area, including all racial and ethnic minorities, women and handicapped persons. The applicant further states that Oktibbeha County Hospital is a Medicaid Disproportionate Share Hospital, and thus serves as a healthcare safety-net for all residents in its service area.

Relocation of Services: The applicant does not propose the relocation of services.

Current and Projected Utilization of Like Facilities: The applicant submits that the average occupancy rate for General Hospital Service Area 1 for FY 2007 was 44.9%, with an average length of stay of 4.55 days. Oktibbeha's FY 2007 occupancy rate was 36.82% and average length of stay was 3.65 days.

Probable Effect on Existing Facilities in the Area: Since the applicant is not proposing the addition of any new service categories or an increase in the licensed bed count, the project will not likely have an adverse impact on other healthcare providers in the area. The applicant submits that the majority of its patients come from Oktibbeha County, with no more than 7% coming from any surrounding county where an acute care facility may be located.

In addition, the applicant submits that it is a Level III Trauma Center and receives patients from lower level trauma centers in the area and those hospitals who have elected to pay for the use of the hospital's trauma care system rather than implement their own.

Community Reaction: The application contains over 50 letters of support from physicians, health care facilities, consumers and health-related community agencies in the health planning area, city, and county government officials. In addition, the applicant states that 61% of the voters in the November 4, 2008, election responded by voting in favor to authorize the special obligation bonds for the project.

GR Criterion 6 - Access to the Facility or Service

Medically Underserved Population: The applicant submits that the hospital is a Medicaid Disproportionate Share Hospital, a Level III Trauma Center, and a “safety net” hospital for patient care access. The hospital provides healthcare services to any individual who needs medical attention without regard to age, creed, sex, race, or ability to pay. Further, the current utilization by specified groups (FY 2008), according to the applicant, is as follows:

Medicaid Recipients	17.7%
Charity/Medically Indigent	6.5%
Racial and Ethnic Minorities	43.1%
Oktibbeha Co. Population in Poverty	19.2%

Performance in Meeting Federal Obligations: The applicant submits that Oktibbeha County Hospital has no obligations under any federal regulations requiring uncompensated care, community service, or access by minority/handicapped persons.

GR Criterion 7 - Information Requirement

Oktibbeha County Hospital affirmed that it will record and maintain the information required by this criterion and make it 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 states that there are no existing comparable acute care services in Oktibbeha County. In addition, there is only one comparable facility in the six-county secondary service area (Choctaw, Clay, Lowdnes, Noxubee, Webster, and Winston counties). The target population currently accesses the proposed services of the hospital through scheduled appointments with doctors on the medical staff of the hospital, referrals by physicians not on the staff, emergency visits in the hospital’s ER, and emergency ambulance responses to requests for assistance.

Should OCH not implement the proposed project, the applicant states that the existing health care system would be adversely affected in the following ways:

- The hospital will be forced to continue to provide inpatient care in rooms that are small, compared with modern standards.
- The hospital’s OB/GYN physicians will be forced to provide routine and emergency obstetrical services in crowded and outdated surroundings.
- The fiscal integrity of the hospital could be adversely affected if patients begin to seek inpatient and obstetrical services at nearby facilities with more modern accommodations.
- The hospital could suffer a loss of physicians and its ability to recruit new physicians may be impaired.

GR Criterion 9 - Availability of Resources

The applicant demonstrated that the facility has had a satisfactory staffing history. The applicant projects an addition of 39.9 FTE personnel for the project at an annual cost of \$814,584.

The applicant expects that recruitment for any staffing needs will continue to be accomplished through the hospital's Human Resources Department and Job Line Posting on the hospital's website. The hospital services a training facility for nursing and exercise programs for the Mississippi University for Women (MUW) and licensed practical nursing training program at East Mississippi Community College and Holmes Community College.

GR Criterion 10 – Relationship to Ancillary or Support Services

The applicant states that the project will not require the expansion of any support or ancillary services. In addition, any cost increases will be offset with the projected rate increases of 5% annually in addition to the forecasted utilization increases that will come with the new and renovated facility.

GR Criterion 11 – Health Professional Training Programs

The applicant states that Oktober County Hospital assists with the clinical needs of a number of health professional training programs, such as MUW nursing and exercise programs, LPN, EMT, and Paramedic classes at East Mississippi Community College and Holmes Community College, and many more.

GR Criterion 14 - Construction Projects

The application contains schematic drawings and a site plan of the project. In addition, the application contains a cost estimate signed by Dean and Dean/Associates Architects.

GR Criterion 16 - Quality of Care

Oktober County Hospital is in compliance with the *Minimum Standards for the Operation of Mississippi Hospitals*, according to the Division of Health Facilities Licensure and Certification, MSDH. The facility is accredited by the Joint Commission on Accreditation of Health Care Organizations.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

The total estimated capital expenditure is allocated as follows:

Cost Item	Projected Cost	Percent
Construction Cost – New	\$16,034,300	50.0%
Renovation	5,369,900	17.0%
Fixed & Non-Fixed Equipment	1,534,390	4.0%
Land Cost	0	0.0%
Site Preparation	3,555,000	11.0%
Fees (Architectural, Consultant, etc.)	1,545,000	5.0%
Contingency Reserve	995,800	3.0%
Capitalized Interest	2,800,000	9.0%
Other	513,000	1.0%
Total	\$32,347,390	100.0%

The above capital expenditure is proposed for 71,400 square feet of new construction at a cost of \$327.59 per square foot and 30,600 square feet of renovation at a cost of \$227.85 per square foot (See Attachment 2). The new construction cost is slightly higher than that for hospital construction projects listed in the Means Construction Cost Data, 2009 Edition, which range from a low of \$185 per square foot to a high of \$315 per square foot for new construction.

B. Method of Financing

Oktibbeha County Hospital proposes to finance the project in part with special obligation bonds (authorized on November 4, 2008) and the remaining portion will be covered by funded reserves of the hospital or short-term financing provided by the hospital.

C. Effect on Operating Cost

The Three-Year Projected Operating Statements are presented in Attachment 1 and 1A of this staff analysis.

D. Cost to Medicaid/Medicare

Based on revenue source projections presented in the application, the effect of the project on third party payers is as follows:

Payer Mix	Utilization Percentage	First Year Revenue
Medicaid	35.0	392,914
Medicare	31.0	346,185
Other	34.0	369,197
Total	100.0	\$1,108,296

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for review and comment. The Division of Medicaid takes no position on this project.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the criteria and standards for the construction, renovation, expansion, capital improvements, replacement, and addition of hospital beds as contained in the *FY 2009 State Health Plan*; the *Mississippi Certificate of Need Review Manual, Revised February 23, 2008*; and duly 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 Oktibbeha County Hospital for Phase V: Four-Story Patient Tower Addition with New Women's Center and Renovation Project.

**Attachment 1
 Oktibbeha County Hospital
 Phase V: Four-Story Patient Tower Project**

	Proposed Year 1	Proposed Year 2	Proposed Year 3
Revenue			
Inpatient Care Revenue	\$1,027,476	\$1,472,766	\$1,921,537
Outpatient Care Revenue	80,820	114,663	141,085
Gross Patient Revenue	\$ 1,108,296	\$1,587,429	\$2,062,622
Charity Care	\$20,382	\$26,110	\$31,795
Deductions from Revenue	688,926	989,845	1,288,283
Net Patient Revenue	\$ 398,988	\$571,474	\$742,544
Other Operating Revenue	17,173	18,031	18,933
Total Operating Revenue	\$416,161	\$589,505	\$761,477
Operating Expenses			
Salaries	\$608,566	\$885,336	\$945,218
Benefits	37,718	77,764	95,423
Supplies	23,464	33,901	45,290
Services	5,925	8,560	11,435
Lease			
Depreciation	474,857	977,003	977,164
Interest			
Other	620,621	200,696	268,120
Total Operating Expenses	\$1,771,151	\$2,183,260	\$2,342,650
Net Operating Income (Loss)	\$ (1,354,990)	\$ (1,593,755)	\$ (1,581,173)
Assumptions	Proposed Year 1	Proposed Year 2	Proposed Year 3
Inpatient days	1,128	1,526	1,989
Charge per inpatient day	\$911	\$ 965	\$966
Cost per inpatient day	\$1,570	\$1,431	\$1,178

*Note: While slight increases are projected for outpatient revenue, the applicant does not expect that the renovations of these areas to have a significant impact on revenues.

**Attachment 1A
 Oktibbeha County Hospital
 Three Year Projected Operating Statement
 With Project**

	Proposed Year 1	Proposed Year 2	Proposed Year 3
Revenue			
Inpatient Care Revenue	\$59,832,713	\$63,218,265	\$66,754,311
Outpatient Care Revenue	106,572,420	111,930,845	117,548,075
Gross Patient Care Revenue	\$166,405,133	\$175,149,110	\$184,302,386
Charity Care	\$2,335,632	\$2,457,123	\$2,584,358
Deductions from Revenue	104,083,589	109,554,240	115,280,899
Net Patient Care Revenue	\$59,985,912	\$63,137,747	\$66,437,129
Other Operating Revenue	\$14,018,398	\$14,719,317	\$15,455,283
Total Operating Revenue	\$74,004,310	\$77,857,064	\$81,892,412
Operating Expense			
Salaries	\$33,667,260	\$34,935,790	\$36,017,186
Benefits	5,498,035	5,701,890	5,888,273
Supplies	11,156,246	11,500,667	11,856,059
Services	8,683,971	8,946,948	9,217,974
Lease			
Depreciation	5,484,220	6,136,647	6,291,597
Interest	1,311,272	1,350,611	1,391,129
Other	2,118,621	1,743,636	1,857,348
Total Operating Expense	\$67,919,625	\$70,316,189	\$72,519,566
Net Operating Income (Loss)	\$6,084,685	\$7,540,875	\$9,372,846
Proposed			
	Year 1	Year 2	Year 3
Inpatient days	15,013	15,601	16,264
Charge per inpatient day	\$ 3,985	\$ 4,052	\$ 4,104
Cost per inpatient day	\$ 4,524	\$ 4,507	\$ 4,459

Attachment 2
Oktibbeha County Hospital
Phase V: Four-Story Patient Tower Addition with New
Women's Center and Renovation Project
Computation of Construction and Renovation Cost

Cost Component	Total	New Construction	Renovation
New Construction Cost	\$16,034,300	\$16,034,300	
Renovation Cost	\$5,369,900		\$5,369,900
Total Fixed Equipment Cost	\$62,000	\$62,000	
Total Non-Fixed Equipment Cost	\$1,472,390	\$0	
Land Cost	\$0	\$0	
Site Preparation Cost	\$3,555,000	\$3,555,000	
<i>Fees (Architectural, Consultant, etc.)</i>	\$1,545,000	\$1,081,500	\$463,500
Contingency Reserve	\$995,800	\$697,060	\$298,740
Capitalized Interest	\$2,800,000	\$1,960,000	\$840,000
Other	\$513,000		
Total Proposed Capital Expenditure	\$32,347,390	\$23,389,860	\$6,972,140
Square Footage	102,000	71,400	30,600
Allocation Percent	100%	70.00%	30.00%
Costs Less Land, Non-Fixed Equipment & Other	\$30,362,000	\$23,389,860	\$6,972,140
Cost Per Square Foot	\$297.67	\$327.59	\$227.85