

**DIVISION OF HEALTH PLANNING
AND RESOURCE DEVELOPMENT
AUGUST 2005**

**CON REVIEW HG-RC-0605-024
MEMORIAL HOSPITAL AT GULFPORT
NORTH CLINICAL SUPPORT ADDITION AND SURGERY REPLACEMENT
CAPITAL EXPENDITURE: \$39,520,625
LOCATION: GULFPORT, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Memorial Hospital at Gulfport (Memorial) is a nonprofit community hospital owned by the City of Gulfport and the Gulfport-West Harrison County Hospital District. The hospital is governed by a seven-member Board of Trustees, appointed by the Mayor and City Council acting for the City of Gulfport, and the Board of Supervisors of Harrison County, Mississippi, acting for the Gulfport-West Harrison County Hospital District. Three members are appointed by the City; three are appointed by the Hospital District; and one member is appointed jointly by the City and the Hospital District. The hospital is accredited by the Joint Commission on the Accreditation of Healthcare Organizations (JCAHO).

Memorial is currently licensed to operate a total of 445 beds, including beds located at its main campus and at its Sand Hill Behavioral Health location. The licensure category of the total bed complement includes the following:

Medical/Surgical	303 beds
Psychiatric	89 beds
Chemical Dependency	20 beds
Rehabilitation	<u>33 beds</u>
Total	<u>445 beds*</u>

*The applicant holds a Certificate of Need (CON) to add 20 additional acute care beds.

The occupancy rates, average lengths of stay (ALOS) and the Medicaid utilization rates for the three most recent years are listed below (medical/surgical beds only):

**Memorial Hospital at Gulfport
Utilization Data**

Year	Occupancy Rate (%)	ALOS (Days)	Medicaid* Utilization Rate (%)
2002	65.80	5.36	27.21
2003	66.35	5.11	17.84
2004	67.47	5.08	24.38

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

B. Project Description

Memorial requests CON authority for its North Clinical Support Addition and Surgery Replacement. The applicant submits that as a part of the hospital's overall facility space and health planning process, the architectural firm of Blich/Krebs, along with the hospital administrator, physicians and clinical staff, evaluated the patient care considerations involving specifically the Surgery Department of the hospital. In that regard, the firm recommended the relocation and replacement of the surgery suites currently operational at the hospital, in addition to construction and renovation of surgical support space, materials management and central plant/infrastructure of the hospital.

Memorial states that the surgical suites at the hospital were built in the 1970s and have not been significantly modernized since their original construction. The hospital proposes to upgrade its facilities to comply with today's health care needs and regulations with respect to function, size, equipment and technology.

The project entails approximately 94,787 square feet of new construction on the first, second, and fourth floors of the hospital and renovation of approximately 40,252 square feet of space on the first and second floors. The project involves relocation of surgical suites and construction or renovation of surgical support space on the second floor, construction of space for materials management and handling on the first floor; and relocation of utilities from their current location under the physician parking lot to a maintenance tunnel. The applicant expects that this infrastructure upgrade will allow the hospital to improve its electrical plant to service the hospital for an additional 20-25 years.

The Surgical Suite replacement will take place directly above the physician parking, creating a covered physician parking area for enhanced access and convenience, particularly to the surgical wing.

A summary of the new construction and renovation square footage amounts involved in this project is presented below:

Summary of New Construction and Renovation

Program Area	New Construction		Renovation
	Location	Square Feet	Square Feet
OR Suites	Floor 2	21,965	1,314
OR Support	Floor 2	15,282	7,235
ICU-A & B	Floor 2	6,549	5,838
PACU	Floor 2		6,274
Pre-Op/Holding	Floor 2		7,400
Instrument Processing	Floor 2	4,741	
Mat'l Mgmt & Dock	Floor 1	6,453	9,069
Physician Parking	Floor 1	22,833	
Service Core	Floor 1	2,862	1,101
Shell Space	Floor 1	1,040	2,021
Mech. & Elec. Rooms	Floor 4	<u>13,062</u>	_____
Total		94,787	40,252

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

The capital expenditure of \$39,520,625 is allocated for new construction - 46 percent, renovation - 16 percent, fixed and non-fixed equipment - 27 percent, and fees and contingency reserve - 11 percent (See Capital Expenditure Summary on page 7). The applicant anticipates that the renovation and expansion project will be initiated immediately upon CON approval.

II. TYPE OF REVIEW REQUIRED

Projects which propose the construction and renovation of a health care facility are reviewed in accordance with Section 41-7-191, subparagraph (1)(j) Mississippi Code 1972 Annotated, as amended, and duly adopted rules, procedures, plans, criteria, and standards of the Mississippi 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 September 6, 2005.

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

A. State Health Plan (SHP)

The *FY 2005 State Health Plan* contains criteria and standards which an applicant is required to meet prior to undertaking major construction, renovation, expansion, capital improvements, replacement of health care facilities, and addition of hospital beds. This application is in substantial compliance with applicable criteria and standards.

SHP Criterion 1- Need

In documenting the need for this project, the applicant submits that the surgical suites at Memorial were built in the 1970s and have not been significantly modernized since their original construction. The hospital has eight (8) surgical suites that the applicant proposes to relocate and replace with new construction in what the applicant refers to as the North Clinical Support Addition. The applicant submits that because the surgical suites were constructed in the 1970s, they are undersized and thus cannot accommodate the technologies necessary to operate in the modern surgery environment. Currently, the hospital's suites are approximately 400 square feet, which the applicant states is below the JCAHO standard of 650 square feet for a surgical suite, and the industry design standard of 650 – 750 square feet. Memorial asserts that undersized surgery suites make them ill equipped to accommodate modern technologies, which not only limits the types of procedures to be performed there, but also the way in which they are performed.

In addition, the applicant states that the current surgical suites are inflexible and inefficient as a result of the following:

- Medical gas lines are hung from the ceiling (having no flexibility);
- There is inadequate equipment and instrument storage space, so unnecessary equipment stays in the surgical suite;
- Due to lack of space and inefficient operation, cleaning after surgeries is difficult, thus causing a higher turnaround time for the surgery suites.

The applicant proposes to designate two surgical suites for the performance of cardiovascular surgery with the remaining surgical suites constructed to offer flexibility in use, not a modality-specific design. The applicant expects that this flexibility will allow the rooms to adapt to different modalities to meet market trends in surgical technique and efficiency.

Memorial proposes that each surgical suite would include 800 square feet; would be designed to permit surgeries of any modality; and would be sized to permit increasing volumes of minimally invasive surgeries (these surgeries require more equipment and thus more space). The hospital proposes to replace its eight (8) existing surgical suites and build shelled space for two (2) additional surgical suites (previously CON approved) for build-out at a later date. These surgical suites will be located on the Second floor of the North Clinical Support Addition. The applicant expects that the construction proposed will allow the hospital to meet its current and future demands with respect to space, functionality, and patient care considerations.

The applicant submits that the surgical support spaces are in need of improvement to provide ample space appropriately configured for efficiency of operations. The central sterile instrument processing area was said to be undersized and ill equipped to handle the day-to-day operations of the Surgery Department. The applicant expects that relocating the instrument processing area to a larger space adjacent to Surgery will allow for more efficiency in the Surgery Department. In addition, the applicant states that the pathways for soiled and clean materials are regulated such that there must be dedicated elevators provided. The proposed project will provide these areas in a design that will accommodate dedicated elevators and enhanced efficiencies of operation for improving the turnaround time in the surgical suites.

According to the applicant, the hospital currently has approximately 4,000 square feet dedicated to its Materials Management space, while industry standards indicate that a hospital of Memorial's size and service complement should have approximately 10,000 square feet in its Materials Management area. The hospital proposes to add space for materials management and handling (loading dock) on the First floor, which would increase the total space footage of this department to approximately 8,000 square feet. The applicant expects that this additional space will significantly improve the operating efficiencies in the Materials Management and Loading Dock areas of the hospital, and to provide ample space for supplies, storage, receiving, and inventory.

SHP Criterion 2 - Charity/Indigent Care

Memorial states that it provides and will continue to provide a reasonable amount of indigent/charity care as described in the *FY 2005 State Health Plan*.

SHP Criterion 4 - Reasonable Cost

Based on the formula stated in the *Plan*, the construction cost per square foot for this project is \$277.80, and the renovation cost per square foot is \$164.41. The applicant's cost per square foot for new construction is slightly above the high range for hospital construction projects listed in the *Means Construction Cost Data, 2005 Edition*. However, the cost of the project is reasonable in comparison with the cost of similar projects approved by the Department within the past 12 months, which ranged from \$122 per square foot to \$287 per square foot.

The applicant submits that the equipment costs as proposed do not exceed the median costs for similar projects approved by the Department by more than 15 percent.

SHP Criterion 5 - Square Footage Requirements

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

SHP Criterion 6 - Renovation versus Replacement

The applicant submits that the cost of the proposed construction/renovation project does not exceed 85 percent of the cost of a replacement facility. According to the applicant, the total square footage of Memorial is 751,784. Based on the total project cost for hospitals listed in the *Means Construction Cost Data, 2005 edition* (\$152 - \$275 per square foot), the cost to replace a facility this size would range from \$114,271,168 to \$206,740,600. The capital expenditure proposed in this project is \$39,520,625, approximately 35 percent of the low cost of a replacement facility and 19 percent of the high cost. Therefore, the applicant is in compliance with this criterion.

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 1 – State Health Plan

The application is in compliance with the criteria and standards stated in the *FY 2005 State Health Plan*.

GR Criterion 2 - Long Range Plan

The applicant states that the proposed project is the result of planning and the identification of long-range goals for Memorial and the community it serves. The proposed construction and renovation project will allow Memorial to enhance the continuity of care and services provided to its patients.

GR Criterion 3 - Availability of Alternatives

Alternatives considered by the applicant include maintaining the status quo and pursuing renovation and expansion. Memorial believes that the project as proposed is the most efficient and cost-effective method of providing for the future delivery of health care services to the patient population served by Memorial.

GR Criterion 4 - Economic Viability

The applicant projects net income of \$11,610,000 the first year, \$8,580,000 the second year, and \$8,593,000 the third year of operation. Therefore, the project appears to be economically viable.

The application contains a letter from the Vice President - Finance, attesting to the economic viability of the project.

GR Criterion 5 - Need for the Project

The applicant submits that the proposed services will be accessible to all residents of the service area, including all low income persons, racial and ethnic minorities, elderly, women, handicapped persons or any other underserved groups in the provision of its services. According to the applicant, the project is designed and intended to accommodate current and projected utilization of services for all patients of the hospital's service area.

The project is not expected to have an adverse impact on other providers of care.

GR Criterion 6 - Accessibility

Memorial affirmed that it does not discriminate against the poor, the handicapped, women, the elderly or members of racial or ethnic minorities.

The applicant submits that the following care was provided to medically indigent patients during the past three fiscal years:

FY 2002	4.1%	\$21,367,472
FY 2003	4.0%	\$24,220,461
FY 2004	4.1%	\$34,172,000

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 Department of Health within 15 business days of request.

GR Criterion 8 - Relationship to Existing Health Care System

The applicant submits that this proposal involves renovation and expansion at Memorial for the purpose of enhancing its existing facilities and delivery of services. The applicant believes that the project is vital to the delivery of patient care at the hospital. Because the project does not propose the addition of new services, the project is not expected to have an adverse impact on other providers.

GR Criterion 9 - Availability of Resources

The applicant affirmed 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

Memorial 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

Cost Item	Projected Cost	% of Total
Construction Cost - New	\$ 18,200,000	46.1%
Renovation	6,300,000	15.9%
	-	
Capital Improvements		0.0%
Total Fixed Equip Cost	5,177,528	13.1%
Total Non-Fixed Equip Cost	5,472,472	13.8%
	-	
Land Cost		0.0%
	-	
Site Prep Cost		0.0%
Fees	2,195,625	5.6%
Contingency Reserve	2,025,000	5.1%
	-	
Capitalized Interest		0.0%
Other Cost - Testing Services	150,000	0.4%
Total Proposed Expenditures	\$ 39,520,625	100.0%

The capital expenditure proposed is for the new construction of approximately 94,787 square feet of space at an estimated cost of \$277.80 per square foot, and renovation of approximately 40,252 square feet of space at an estimated cost of \$167.41 per square foot. The *Means Construction Cost Data*, 2005 edition, lists the cost of new construction for hospitals as ranging from \$152 to \$275 per square foot.

B. Method of Financing

The applicant proposes to finance the project with accumulated cash reserves. An examination of the facility's past audited financial statements confirmed the availability of cash reserves. The application contained a letter from the Chief Financial Officer certifying that the applicant has the ability to undertake the project.

C. Effect on Operating Cost

The applicant's three year projected operating statement is presented at Attachment 1.

The applicant projects that the only costs added as a result of this project will be depreciation of \$2,470,245.

D. Cost to Third Party Payors

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

Patient Mix	Utilization Percentage	First Year Cost
Medicaid	14.70	\$ 363,126
Medicare	49.10	1,212,890
Other Payors	<u>36.20</u>	<u>894,229</u>
Total	<u>100.00</u>	<u>\$ 2,470,245</u>

The applicant projects to provide 6.6 percent care for bad debt patients and 3.9 percent care for medically indigent patients.

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 \$363,122 for inpatient hospital services. No position was taken on the project.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the criteria and standards for construction and renovation projects as contained in the *FY 2005 State Health Plan*; the *Mississippi Certificate of Need Review Manual*, revised May 2000; and all adopted rules, procedures, and plans of the Mississippi Department of Health.

Therefore, the Division of Health Planning and Resource Development recommends approval of the application by Memorial Hospital at Gulfport for its North Clinical Support and Surgical Replacement project.

Attachment 1

Memorial Hospital at Gulfport Three Year Projected Operating Statement

	2005	2006	2007
Key Statistics:			
Average Daily Census	279.1	279.3	221.8
Patient Days	101,871	101,939	80,956
Discharges			
Procedures			
Average Length of Stay (med/surg)	5.2	5.2	5.2
Occupancy Rate	73.10	73.10	73.20
Charge per Patient Day	\$ 8,090	\$ 8,663	\$ 11,607
Cost per Patient Day	\$ 2,877	\$ 3,043	\$ 4,017
Profit Margin per Patient Day	\$ 114	\$ 84	\$ 106
Patient Revenue			
Total Patient Revenue	\$ 824,133,000	\$ 883,093,000	\$ 939,668,000
Deductions from Revenue			
Charity Care	(34,172,000)	(35,494,000)	(37,535,000)
Contractual Adjustments	(492,770,000)	(537,816,000)	(576,628,000)
Total Revenue Deductions	<u>\$ (526,942,000)</u>	<u>\$ (573,310,000)</u>	<u>\$ (614,163,000)</u>
Net Patient Revenue	<u>\$ 297,191,000</u>	<u>\$ 309,783,000</u>	<u>\$ 325,505,000</u>
Other Operating Revenue	7,480,000	8,968,000	8,287,000
Net Revenue	<u>\$ 304,671,000</u>	<u>\$ 318,751,000</u>	<u>\$ 333,792,000</u>
Operating Expenses			
Salaries, Wages, & Benefits	127,589,000	132,693,000	138,000,000
Professional Fees	3,983,000	4,123,000	4,266,000
Supplies & Miscellaneous	73,645,000	78,227,000	81,549,000
Purchased Services	9,190,000	9,593,000	9,926,000
Interest	5,802,000	5,658,000	5,502,000
Bad Debt	57,010,000	61,817,000	65,777,000
Depreciation & Amortization	15,842,000	18,060,000	20,179,000
Total Operating Expenses	<u>\$ 293,061,000</u>	<u>\$ 310,171,000</u>	<u>\$ 325,199,000</u>
Income (Loss) from Operations	\$ 11,610,000	\$ 8,580,000	\$ 8,593,000