

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

**CON REVIEW: HG-R-0605-020
RUSH MEDICAL FOUNDATION D/B/A RUSH FOUNDATION HOSPITAL
THIRD FLOOR RENOVATION PROJECT
CAPITAL EXPENDITURE: \$5,828,765
LOCATION: MERIDIAN, MISSISSIPPI, LAUDERDALE COUNTY**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Rush Medical Foundation d/b/a Rush Foundation Hospital (RFH) is a private, non-profit, 215-bed general acute care hospital. The hospital is owned by Rush Medical Foundation and is governed by a six-member Board of Directors appointed by Rush Health Systems, Inc. RFH is accredited by the Joint Commission on the Accreditation of Healthcare Organizations and licensed by the Mississippi Department of Health.

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

**Rush Foundation Hospital
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2002	44.19	4.58	19.64
2003	48.28	4.68	19.27
2004	50.20	4.58	21.77

Source: Division of Health Facilities Licensure and Certification, Mississippi Department of Health, (MDH).

B. Project Description

Rush Foundation Hospital is requesting Certificate of Need (CON) authority to renovate the third floor of the hospital to update its women's center. The hospital is responding to a community need to offer state-of-the-art women's services in modern facilities taking into account technology, equipment and medical advances appropriate to the offering of these services. The proposed project involves 33,316 square feet of renovation on the third floor of the hospital. The proposed project will redesign the women's health wing to meet current standards, both from a facility space planning, as well as a patient care perspective.

According to Rush Foundation Hospital, phasing the proposed renovation in five phases will allow for less disruption to patients and enable the hospital to continue to offer women's health services while renovation is ongoing. Although many of the services needed for a comprehensive women's center are currently offered at Rush Foundation Hospital, they are not well coordinated or integrated, principally because of space constraints, design and logistics. As part of its comprehensive women's health program, RFH offers the following

services: family birth center (with LDRP, traditional delivery patient rooms, caesarean section and pre-term services and rooms), nursery, neonatal intensive care, midwifery services, educational services (including the breastfeeding resource center, "baby steps" classes for expectant parents) and related diagnostic services to support the obstetrical and neonatal units.

According to Rush Foundation Hospital, no additional FTE personnel is required, as a result of the proposed project. The hospital states that the project proposes no licensed bed increases or decreases and no change in the range or types of services offered at the hospital.

Total proposed capital expenditure of \$5,828,765 is composed of renovation (62.75 percent), non-fixed equipment (26.59 percent), fees (4.39 percent), and contingency reserve (6.27 percent). See capital expenditure summary, page 7. The applicant proposes to fund the project from accumulated cash reserves.

According to the applicant, RFH proposes to begin renovation work immediately after CON approval. It is proposed that the renovation work would be accomplished in five phases over a 28-month period.

The application includes a letter requesting site approval from the Division of Health Facilities Licensure and Certification, MDH, for the proposed project.

II. TYPE OF REVIEW REQUIRED

Rush Foundation Hospital's request for Certificate of Need approval for renovation of the third floor of the hospital. The project is reviewed in accordance with Sections, 41-7-191, subparagraph (1)(j), Mississippi Code of 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 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 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

According to Rush Foundation Hospital, the hospital was one of the first facilities in Mississippi to offer labor/delivery/recovery/postpartum (LDRP) services to its obstetrical patients in 1988. This unit has not been significantly renovated, except from a maintenance perspective, since that time and thus the proposed project is vital to the hospital's continued service delivery to its obstetrical patients.

RFH states that although the hospital has offered LDRP services to its patients for nearly 20 years, the current physical facilities are not ideal. The space is in need of reconfiguring to optimize patient care. For example, when a patient is undergoing a caesarean section on the third floor of the hospital, the traffic flow of patients, staff and family members in that area is blocked due to patient care considerations. This function is certainly not desirable from patient care, access nor space planning perspective. Designing the space to appropriately accommodate all birthing options while not restricting corridors and access by patients, families and staff, is a major objective of this proposed renovation project. The reconfiguration of the third floor would allow the hospital to revamp the current floor space in five separate phases of renovation to reconstitute the LDRP rooms, while also offering space for high risk pre-term, observation, caesarean section, recovery, traditional labor rooms and support services for the women's center at Rush Foundation Hospital. The waiting areas at the hospital are currently undersized; the nursing stations on the obstetrics wing are in need of updating and modernization to current standards; and much of the equipment and technology utilized on the obstetrics wing requires replacement or enhancement.

The applicant believes that the proposed project is crucial for the hospital to meet the future needs of its patients.

The following table shows the utilization of RFH women's center/services for the past three years.

RFH Women's Center Utilization (FY 2002 – FY 2004)

Women's Services	FY 2002	FY 2003	FY 2004
Deliveries	960	844	874
C-Sections	242	257	280
Newborn Days	3,518	3,134	3,079

Source: Renewal of Hospital Licenses, MDH

SHP Criterion 3 – Charity/Indigent Care

Rush Foundation Hospital states that the hospital does provide and will continue to provide a reasonable amount of indigent/charity care.

SHP Criterion 4 – Cost of Project

According to RFH, the cost of the project is reasonable in comparison to the cost of similar projects previously approved by the Mississippi Department of Health.

The applicant proposes to renovate 33,316 square feet of existing space at an estimated cost of \$128.44 per square foot. See Attachment I.

RFH asserts that the equipment costs as proposed in the application do not exceed the median costs for similar projects approved by MDH in the recent past by more than 15 percent.

SHP Criterion 5 – Floor Areas and Space Requirements

The applicant submits that the gross square footage for this renovation project is identified throughout the application. The proposed project compares favorably with state and national norms for similar projects.

SHP Criterion 6 – Renovation versus Replacement

RFH states that the cost of the proposed renovation 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, 2000 Revision*, addresses general criteria by which all CON applications are reviewed. This application is in substantial compliance with general review criteria.

GR Criterion 1 – Consistency with the State Health Plan

According to Rush Foundation Hospital, the proposed project is in full compliance with all criteria, standards and policies of the **FY 2005 State Health Plan**, which is well documented throughout the proposed Certificate of Need application.

GR Criterion 2 - Long Range Plan

According to the applicant, the proposed project is the result of planning and the identification of long-range goals for RFH and the community it serves. The proposed renovation project will allow the hospital to enhance the continuity of care and services provided to its patients.

GR Criterion 3 – Availability of Alternatives

The applicant considered the following alternatives before proceeding with the proposed project:

1. Maintain the Status Quo. RFH rejected consideration of maintaining the status quo due to the desperate need for renovation of the women's health areas of the hospital.
2. Pursue Renovation Project. RFH determined this alternative to be the most feasible means to meet the current and future needs of its patient population and service area.

Rush Foundation Hospital believes that the proposed project is the most cost-effective method of meeting the community's health care needs.

GR Criterion 4 - Economic Viability

The application contains a letter signed by the chief financial officer of RFH, attesting to the financial feasibility of this project.

Rush Foundation Hospital projects net operating income to be \$3,041,506 the first year, \$4,392,490 the second year, and \$5,297,668 the third year after completion of this project.

GR Criterion 5 - Need for the Project

According to the applicant, the proposed services will be accessible to all residents of the service area, including low income persons, racial and ethnic minorities, elderly, women, handicapped persons, and other under-served groups.

According to the applicant, the proposed project will upgrade and enhance the obstetrical wing of the hospital, including the LDRP unit, constructed in 1988. This space has not been significantly renovated since its construction. The proposed project will modernize and reconfigure the women's health wing of the hospital to provide an updated labor and delivery area to the patients of Rush Foundation Hospital.

The applicant asserts that the principal objectives of the proposed project at RFH are to strive to provide levels of patient care commensurate with identified clinical needs; to provide adequate levels of patient and physician support where it is demanded; and to appropriately address the needs of current and future patients of the hospital.

The application contains four letters of support for the proposed project.

GR Criterion 6 - Access to the Facility or Service

According to RFH, the hospital does not discriminate against the poor, the handicapped, women, the elderly or members of racial and ethnic minorities. The hospital has served, and will continue to serve, a significant percentage of the medically under-served population. These patients will have access to the services offered by RFH.

The following table shows the percentage of estimated gross patient revenue and actual dollar amount of health care provided to medically indigent patients for the past three fiscal years at Rush Foundation Hospital:

Fiscal Year	Percent of Gross Patient Revenue	Dollar Amount
2002	3.5	\$7,326,779
2003	3.5	\$8,225,104
2004	3.5	\$7,326,779

GR Criterion 7 - Information Requirement

Rush Foundation Hospital affirms that it will record and maintain the information required by this criterion and make it available to the Mississippi Department of Health within 15 business days of request.

GR Criterion 8 - Relationship to Existing Health Care System

According to the applicant, the proposed project involves renovation at RFH for the purpose of enhancing its existing facilities and delivery of services. Therefore, the proposed project is expected to have no adverse impact on existing facilities or services. The applicant believes that the proposed project is vital to the continued delivery of women's services at RFH.

GR Criterion 9 - Availability of Resources

The applicant affirms the availability of resources (including medical staff, health personnel, management personnel, and funds for capital and operating needs) to pursue the proposed project.

GR Criterion 10 – Relationship to Ancillary or Support Services

The applicant asserts that the proposed project involves the renovation of existing space on the third floor of the hospital in order to continue to provide existing services. Therefore, there will be no adverse impact on any ancillary or support services offered.

GR Criterion 14 - Construction Projects

According to the applicant, no new construction is involved in the proposed project.

The proposed project has a renovation cost per square foot (33,316 square feet), calculated using the formula set forth in the **FY 2005 State Health Plan**, of \$128.44. See Attachment I.

GR Criterion 16 - Quality of Care

Rush Foundation Hospital is in compliance with **the Minimum Standards for the Operation of Mississippi Hospitals**, according to the Division of Health Facilities Licensure and Certification, MDH. RFH is accredited by the Joint Commission on Accreditation of Health Care Organizations.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

Cost Item	Projected Cost	Percent
Renovation	\$ 3,657,311	62.75%
Non-Fixed Equipment	\$ 1,549,711	26.59%
Fees (Architectural, Consultant, etc.)	\$ 256,012	4.39%
Contingency Reserve	\$ 365,731	6.27%
Total Capital Expenditure	\$ 5,828,765	100%

The applicant proposes renovation of 33,316 square feet of existing space on the third floor of Rush Foundation Hospital at \$128.44 per square foot. No new construction is proposed in this project. The proposed project also involves the purchase of non-fixed equipment.

B. Method of Financing

The applicant proposes to finance the proposed project from accumulated cash reserves.

The application contains a letter signed by the chief financial officer of RFH, attesting to the financial feasibility for this proposed project.

C. Effect on Operating Cost

RFH projects the following expenses, revenues, and utilization for the first three years of operation for the proposed project:

Expenses	Year 1	Year 2	Year 3
Salaries, Benefit & Wages	\$ 53,302,832	\$ 54,368,889	\$ 55,456,266
Professional Fees	\$ 17,055,513	\$ 17,396,624	\$ 17,744,556
Supplies and Misc.	\$ 33,953,594	\$ 34,632,665	\$ 35,325,319
Maintenance & Utilities	\$ 2,676,353	\$ 2,729,880	\$ 2,784,477
Interest	\$ 2,493,718	\$ 2,543,592	\$ 2,594,464
Bad Debts	\$ 14,133,177	\$ 14,415,840	\$ 14,704,157
Depreciation & Amortization	\$ 6,130,203	\$ 6,252,807	\$ 6,377,863
Total Expenses	\$ 129,745,390	\$ 132,340,297	\$ 134,987,102
Gross Patient Revenue	\$ 322,768,524	\$ 332,516,134	\$ 342,491,618
Deductions	\$ (186,343,884)	\$(191,971,470)	\$(197,730,614)
Net Patient Revenue	\$ 136,424,640	\$ 140,544,664	\$ 144,761,004
Other Revenue	\$ 10,862,255	\$ 11,188,123	\$ 11,523,767
Total Revenue	\$ 147,286,895	\$ 151,732,787	\$ 156,284,771
Excess Revenue over Expenses	\$ 17,541,506	\$ 19,392,490	\$ 21,297,668
Affiliate Support	\$ 14,500,000	\$ 15,000,000	\$ 16,000,000
Net Operating Income	\$ 3,041,506	\$ 4,392,490	\$ 5,297,668

The applicant projects first year patient days to be 34,706 at a cost of \$3,738 per patient day and charges of \$9,300 per patient day. The applicant projects second year patient days to be 35,053 at a cost of \$3,775 per patient day and charges of \$9,486 per patient day and third year patient day to be 35,403 at a cost of \$3,813 and charges of \$9,674 per patient day.

D. Cost to Medicaid/Medicare

Patient Mix by Type Payer	Utilization Percentage	First Year Expenses
Medicaid	20.72	\$26,883,245
Medicare	41.72	\$54,129,776
Other	<u>37.56</u>	<u>\$48,732,368</u>
TOTAL	<u>100.00</u>	<u>\$129,745,389</u>

RFH projects approximately 3.5 percent of gross revenue for medically indigent patients.

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 estimates that the increased annual cost to Medicaid for the capital expenditure will be \$255,377 for inpatient hospital services.

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 2005 State Health Plan**; the **Mississippi Certificate of Need Review Manual, Revised 2000**; and duly adopted rules, procedures and plans of the Mississippi Department of Health.

The Division of Health Planning and Resource Development recommends approval of this application submitted by Rush Medical Foundation dba Rush Foundation Hospital for third floor renovation project.

**Rush Foundation Hospital
HG-R-0605-020**

Attachment 1

Computation of Renovation Cost

Renovation: 33,316 Square feet

*Renovation Cost Formula

A.	Renovation	\$3,657,311	
E.	Fees	256,012	
F.	Contingency Reserve	<u>365,731</u>	
	Total	\$4,279,054	÷ 33,316 = \$128.44/sq. ft.

*Source: **FY 2005 State Health Plan**