

**MISSISSIPPI DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING
AND RESOURCE DEVELOPMENT
MAY 2007**

**CON REVIEW HG-R-0307-004
FORREST GENERAL HOSPITAL
RENOVATION & RELOCATION OF THE
CENTRAL STERILE PROCESSING AREA
CAPITAL EXPENDITURE: \$4,981,655
LOCATION: HATTIESBURG, FORREST COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Forrest General Hospital (FGH) is a Level II trauma center, 512-bed short-term, general acute care, public hospital located in Hattiesburg, Forrest County, Mississippi. The hospital is owned by Forrest County, Mississippi, and was established in July 1952. The hospital is governed by a seven-member board of trustees, certified to participate in the Medicare and Medicaid programs, and is accredited by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO).

The licensed bed complement of the hospital consists of 400 short-term, general acute care beds, 24 rehabilitation beds, 56 adult psychiatric beds, and 32 adult chemical dependency beds. The occupancy rates, average lengths of stay (ALOS), and Medicaid utilization rates for the three most recent years are as follows:

Fiscal Year	Occupancy Rate (%)	ALOS (DAYS)	Medicaid Utilization Rate
2003	61.24	4.59	29.16
2004	61.97	4.61	25.17
2005	62.74	4.83	22.23

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

B. Project Description

Forrest General Hospital requests Certificate of Need authority to renovate and relocate its Central Sterile Processing Area (CSPA) from the second floor to the basement of the main hospital building. The proposed Central Sterile Processing Area will be approximately 11,000 square feet and able to process a greater number of clean surgical instruments, supplies, and equipment in a shorter period of time. Nearby elevators will be utilized to connect the Central Sterile Processing Area directly to the operating rooms. The renovation and relocation project will require the acquisition of new equipment. The major equipment to be acquired from Steris includes: 1 cart washer, instrument tracking system, sonic cleaner, conveyor system, stainless steel modular wall, sterrad, instrument washer, 2 ethylene oxide sterilizers, steam prevac sterilizers, and approximately 75 case carts. The surgical case cart system reduces set-up and clean-up time and makes the surgeons more efficient by housing all procedural instruments in the cart. The proposed project will not involve changes to the existing grounds, drainage, parking or fencing; however, the electrical and mechanical system will link up to the hospital's existing services.

The applicant provided a letter from Perkins & Will, PLLC, which outlines the estimated cost to complete the project, excluding medical equipment. The applicant asserts it will cost approximately \$215 per square foot to renovate 11,000 square feet of the basement within the existing hospital. Also, the applicant submitted an equipment list to describe items which will be purchased. The proposed total fixed equipment cost is \$1,513,905 and non-fixed equipment cost is \$582,450. Staff calculated a cost per square foot of \$262.30.

The Mississippi Department of Health, Division of Health Facilities Licensure and Certification, has approved the site for the proposed project.

The application includes a capital expenditure summary, a three-year projected operating statement, financial feasibility study, and an audited financial statement. The project will not require any new personnel to staff the area. Furthermore, the turnover rate of the department for the past three years has been considerably low.

Forrest General Hospital has transfer/referral/ affiliation agreements with 17 entities.

Funding for this \$4,981,655 project will come from FGH's cash reserves. Upon approval of the CON, the project will be completed by September 1, 2008.

II. TYPE OF REVIEW REQUIRED

The Mississippi Department of Health reviews applications for construction, renovation, expansion, or capital improvement involving a capital expenditure in excess of \$2,000,000, under the applicable statutory requirements of Section 41-7-173, 41-7-191 (1) (j), and 41-7-193, Mississippi Code of 1972, as amended.

In accordance with Section 41-7-197(2) of the Mississippi Code of 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 June 4, 2007.

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

A. State Health Plan (SHP)

The *FY 2007 Mississippi State Health Plan (FY 2007 MSHP)* contains criteria and standards which the applicant is required to meet before receiving CON authority for construction, renovation, and the acquisition of major medical equipment. This application is in compliance with applicable criteria and standards.

SHP Criterion 1 - Need

Forrest General Hospital states that the Central Sterile Processing Area has been in its present location since 1968. Only a portion of the space was available to service 11 operating rooms, while the other portion was used for the female staff dressing room. In 1986, the female staff dressing room was relocated, bringing the area to its current square footage of 2,622 square feet.

The applicant states that throughout the years, surgical services have grown tremendously at the hospital. The operating rooms have increased from 11 rooms to 15 (with a CON application pending for 3 additional operating rooms), while the Central Sterile Processing Area has remained relatively unchanged. The 2,632 square foot Central Sterile Processing Area has also taken on the responsibility of supporting Interventional Radiology, Labor and Delivery, Patient Care Services (providing trays for procedures done on patient care units), an expanded Emergency Department, Lowery A. Woodall (L.A.W.) Outpatient Surgery Center, and sterile processing for Marion General Hospital. In addition, the technological changes in supplies, equipment, and instruments have mandated multiple sterilization techniques that require additional space-consuming equipment. The applicant considers the existing Central Sterile Processing Area as inefficient and undersized for the planned future growth of FGH. Forrest General Hospital, a Level II trauma hospital, contends it needs a "state of the art" Central Sterile Processing Area to go with its "state of the art" operating room.

The applicant states that the facility's planning committee reviews the plan and shares it with the Board of Trustees, who approves the plan before any action is taken. The application contains a resolution adopted by the Board of Trustees approving this project to renovate and relocate the Central Sterile Processing Area.

The applicant states that FGH is not adding additional beds or services.

SHP Criterion 2 - Bed Service Transfer/Reallocation/Relocation

The applicant asserts that this project does not involve transfer/reallocation/relocation of beds to another facility within GHSA 6. Therefore, this criterion is not applicable to the proposed project.

SHP Criterion 3 - Charity/Indigent Care

Forrest General Hospital affirms that it will provide a “reasonable amount” of indigent/charity care as described in Chapter I of the *2007 State Health Plan*.

SHP Criterion 4 - Cost of Proposed Project

The applicant states that using the computation of the cost per square foot taken from Chapter 8 of the *Mississippi Certificate of Need Review Manual, 2006 revision*, Section IV, General Review Criteria; #14 Construction Projects: Item “E”, the costs of land and non-fixed equipment are excluded from the cost per square feet calculation. The applicant states the proposed project shall cost approximately \$215 per square foot to renovate 11,000 square feet of the basement. The *2007 Means Construction Cost Data* publication does not compare costs of renovation projects.

Staff’s calculation of the renovation cost per square foot is \$262.30 per square foot to renovate 11,000 square feet of the hospital’s basement (see Attachment II).

The applicant states that the total fixed equipment cost is \$1,513,905 and the non-fixed equipment cost is \$582,450. Forrest General Hospital affirms that equipment costs do not exceed the median costs for equipment of similar quality by more than 15%. Also, FGH states that equipment cost estimates have been acquired from vendors through FGH’s purchasing department and are part of the Voluntary Hospital Association’s Novation purchasing agreement.

SHP Criterion 5 - Floor Area and Space Requirements

Forrest General Hospital proposes to renovate 11,000 square feet of space and lists minimum space requirements from Steris, a leader in central processing equipment.

Based on these requirements, the applicant complies with state and national norms for similar projects. Regarding the proposed project, the applicant does not list any architectural design constraints of the existing building, nor does FGH list any “special considerations due to local conditions.”

SHP Criterion 6 – Cost of Proposed Renovation or Expansion Project

The applicant certifies that the proposed renovation project will not exceed 85% of the cost of a replacement facility.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, November 12, 2006 revision*, addresses general criteria by which all CON applications are reviewed. This application is in substantial compliance with general review criteria.

GR Criterion 1 – State Health Plan

According to FGH, the project is in compliance with all criteria, standards, and policies of the FY 2007 *State Health Plan*.

GR Criterion 2 - Long Range Plan

The applicant states that in 1997, FGH engaged John Sierra with the Eckroth Planning Group to facilitate the development of a Long Range Facility Development Plan for the hospital. The Long Range Plan is developed by administration with input from the medical staff, hospital staff, community focus groups, patient surveys, statistical data, and local, state, and national agencies. All plans are presented by the facility planning committee to the Board of Trustees and in turn, the Board of Trustees approves or disapproves all plans. On February 27, 2007, the Board unanimously adopted a resolution to apply for a CON in order to renovate and relocate the CSPA and purchase necessary equipment for the CSPA in the amount of \$4,981,655. This project is in compliance with this criterion.

GR Criterion 3 - Availability of Alternatives

The applicant asserts that the proposed project is the result of planning and the identification of long range facility improvement. The relocation of the CSPA was planned five years ago with the construction of the new ICU/CCU/ER tower. As a result, the Central Sterile elevators were designed to accommodate the proposed relocation of the Central Sterile Processing Area department and the requirement for elevator access to the surgical case carts.

Status Quo: This alternative was not considered because the existing CSPA was built in 1968 and is significantly undersized by today's standards. The existing department is 2,622 square feet and the entrance is located atop an incline, which makes it difficult to push utility carts into the soiled areas.

The existing area, built in 1968 to handle 11 operating rooms, meets the requirements for separate soiled and clean work areas, clean assembly/workrooms, and storage areas. However, the existing operating suite has increased to a total of 15 operating rooms. In addition, the applicant received emergency CON authority in March 2007 to add three additional operating rooms.

Same Floor Adjacent to Operating Room: This alternative was evaluated, however, there was not sufficient square footage available adjacent to the existing CSPA. The existing area was built over a roof and is “land locked.”

Renovation of Basement Space: The facility planning committee identified a need for a larger CSPA and the need to implement a surgical case cart system five years ago. This resulted in an allocation of space in the hospital’s basement which, by elevators, would connect the CSPA and the operating rooms. The elevators are in place and the clean and dirty case cart rooms are built adjacent to the existing operating rooms.

The applicant believes the option to renovate the basement is the most cost effective and efficient alternative. The applicant further states it provides Forrest General Hospital with adequate space to implement a “state of the art” Central Sterile program which will serve the hospital for years to come.

GR Criterion 4 - Economic Viability

The applicant provided a three-year projected operating statement and indicated that net revenue projected for three consecutive years will increase from \$325,735,324 to \$345,207,410 (see Attachment I). The applicant affirms that the proposed costs and charges associated with the project are comparable to similar renovation projects in the state. The applicant asserts that the overall impact on the cost of health care will be positive as a result of this project. Thus, gross revenues are expected to increase due to the increase in operating room turnover that will lead to additional cases. The applicant believes that incurred expenses from this project will be zeroed and reduced due to the following:

- Improved patient outcomes
- Decreased length of stay
- Better control of supply maintenance
- Decreased error rates
- Decreased infection rates

The applicant affirms that hospital utilization in GHSA 6 has been projected based on conservative assumptions that inpatient admissions will remain relatively flat while outpatient admissions will increase due to the shift from inpatient setting to outpatient settings. The applicant further affirms that the hospital’s projected utilization data is comparable to that of GHSA 6 and surrounding hospitals.

Based on the projections listed in the three-year operating statement, all financial requirements will be met during the projected three years and thereafter. Thus, this proposed project will be financially feasible.

GR Criterion 5 - Need for the Project

The FGH states the facility will serve all patients in GHSA 6 without respect to race, color, age, sex, ethnicity, or ability to pay. Forrest General Hospital will operate 7 days per week, 24 hours per day, and 365 days a year.

The applicant asserts that this project does not involve the relocation of the facility or service.

The application contained six letters of support for this proposed project.

GR Criterion 6 - Accessibility

The applicant affirms that FGH will serve all patients in GHSA 6 without regard to race, color, age, sex, ethnicity, and/or ability to pay. FGH currently serves Medicare, Medicaid, and medically indigent patients and will continue to provide same. The hospital operates 7 days per week, 24 hours per day, and 365 days per year. The transportation and travel time to the facility will not change since this project is in the existing hospital.

GR Criterion 7 - Information Requirement

The applicant affirms that FGH will record and maintain the information required by this criterion and shall make the data available to the Mississippi Department of Health within fifteen (15) business days of request.

GR Criterion 8 - Relationship to Existing Health Care System

The applicant states that no new service is proposed in this application. FGH is only enhancing their facility to continue to provide state of the art services to the community. FGH believes that failure to implement the proposed project would limit the growth of the hospital, therefore, limiting the access and availability of necessary healthcare services for the community, contrary to the hospital's mission. Thus, the applicant asserts this project will not have an adverse impact on existing facilities in GHSA 6. Forrest General Hospital has transfer agreements with 17 health care providers.

GR Criterion 9 - Availability of Resources

The applicant asserts that no new personnel will be required, as this project is only a relocation of the CSPA.

GR Criterion 10 - Relationship to Ancillary or Support Services

The applicant asserts that the project is not expected to have an adverse effect upon the delivery of ancillary health or support services.

GR Criterion 11 - Health Professional Training Programs

The applicant affirms that the proposed project will have little to no effect on the healthcare professional training programs in GHSA 6 with the exception of the operating room technician program offered by Pearl River Community College.

GR Criterion 12- Access by Health Professional Schools

The applicant affirms that students enrolled in health professional schools will continue to have access to nursing care services at FGH for training purposes. FGH has participated in professional training programs for many years and Pearl River Community College, Operating Room Technician Program, may be indirectly related to this project.

GR Criterion 14 - Construction Projects

The architect hired by the hospital submitted a cost estimate to show a proposed capital expenditure of \$2,885,300. The application includes a site approval letter from the Division of Health Facilities Licensure and Certification and includes a schematic drawing.

In addition, the applicant states that the project complies with state and local building codes, zoning ordinances, and all appropriate regulatory authorities. The applicant has provided written assurance that FGH will comply with state statutes and regulations for the protection of the environment.

The renovation formula was used by FGH to show how much the proposed project will cost per square foot. The applicant states that the cost to renovate 11,000 square feet of space in the basement of the existing building will be \$215 per square foot. Staff calculated a cost per square foot of \$262.30.

The *2007 Means Construction Cost Data* does not compare costs for renovation projects.

GR Criterion 16 - Quality of Care

The applicant asserts that FGH is certified to participate in the Medicare and Medicaid programs, is accredited by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO), and the College of American Pathology (CAP). Also, FGH holds Certification as a Level II trauma hospital.

The applicant asserts that FGH has won several high ranking honors based on the hospital's delivery of healthcare services. Forrest General Hospital affirms it has a history of providing quality care to residents of Forrest County and will continue its efforts to deliver superior medical care.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

Cost Item	Projected Cost	Percent of Total
Construction Cost - New		
Construction Cost - Renovation	\$2,365,000	47.47%
Capital Improvements		
Total Fixed Equip Cost	\$1,513,905	30.39%
Total Non-Fixed Equip Cost	\$582,450	11.69%
Land Cost		
Site Prep Cost		
Fees	\$236,500	4.75%
Contingency Reserve	\$283,800	5.70%
Capitalized Interest		
Other Cost		
Total Proposed Expenditures	\$ 4,981,655	100%

Forrest General Hospital will renovate 11,000 square feet of space in the basement of the existing hospital. The cost to renovate 11,000 square feet of space will be approximately \$262.30 per square foot (see Attachment II).

B. Method of Financing

Forrest General Hospital will use cash reserves to fund the project. Audited financial statements demonstrate that FGH has sufficient cash reserves to fund the project.

C. Effects on Operating Costs

The applicant projects gross patient revenue of \$888,000,285; \$907,610,173; and \$934,838,482 the first, second, and third year of operation, respectively. Utilization, cost, and charges are included in the applicant's Three-Year Projected Operating Statement (See Attachment I).

D. Cost to Medicaid/Medicare

Patient Mix	Utilization Percentage	First Year Cost
Medicare	42%	\$136,714,064
Medicaid	20%	65,101,935
Other Payors	<u>38%</u>	<u>123,693,677</u>
Total	100.0%	\$ 325,509,676
FGH projects 7.9% percent bad debt. Medically indigent and charity care are projected to be approximately 4% and 3.9% of gross patient revenues, respectively.		

V. RECOMMENDATION OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for comment. According to the Division of Medicaid, outpatient services will be paid as outlined in the Medicaid State Plan. The Division does not oppose the application.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the criteria and standards for construction, renovation, and expansion projects as contained in the *2007 Mississippi State Health Plan*; Chapter 8 of the *Mississippi Certificate of Need Review Manual, Revised November 12, 2006*; and all 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 Forrest General Hospital.

**ATTACHMENT I
 FORREST GENERAL HOSPITAL
 THREE YEAR PROJECTED OPERATING STATEMENT**

	First Year	Second Year	Third Year
Revenue			
Inpatient Care Revenue	\$ 572,179,992	\$ 583,157,093	\$ 600,651,807
Outpatient Care Revenue	315,820,293	324,453,080	334,186,675
Gross Patient Care Revenue	\$ 888,000,285	\$ 907,610,173	\$ 934,838,482
Deductions:			
Charity Care	\$ (37,470,800)	\$ (37,855,293)	\$ (36,749,868)
Deductions from Revenue	(524,794,161)	(536,777,867)	(552,881,203)
Net Patient Care Revenue	\$ 325,735,324	\$ 332,977,014	\$ 345,207,410
Other Operating Revenue	\$ 11,323,513	\$ 11,663,218	\$ 12,013,115
Total Operating Revenue	\$ 337,058,837	\$ 344,640,232	\$ 357,220,525
Operating Expense			
Salaries	\$ 142,415,643	\$ 148,037,988	\$ 153,882,997
Benefits	28,260,110	28,542,711	29,684,420
Supplies	65,721,116	67,692,749	71,077,387
Services	37,357,475	33,621,728	34,630,379
Lease	7,759,399	6,983,459	7,053,294
Depreciation	19,624,610	20,213,348	20,617,615
Interest	4,038,834	4,159,999	4,243,199
Other	20,332,489	18,299,240	19,763,179
Total Operating Expense	\$ 325,509,676	\$ 327,551,222	\$ 340,952,470
Net Operating Income (Loss)	<u>\$ 11,549,161</u>	<u>\$ 17,089,009</u>	<u>\$ 16,268,055</u>
Inpatient Days	122,603	123,829	128,782
Outpatient Visits	19,250	21,175	23,293
Charge per Outpatient Visit	\$ 16,406	\$ 15,322	\$ 14,347
Charge per Inpatient Day	\$ 4,667	\$ 4,709	\$ 4,664
Cost per Inpatient Day	\$ 2,655	\$ 2,645	\$ 2,648
Cost per Outpatient Visit	\$ 16,910	\$ 15,469	\$ 14,638

**FORREST GENERAL HOSPITAL
 COMPUTATION OF CONSTRUCTION AND RENOVATION COST**

ATTACHMENT II

Computation of Construction and Renovation Cost

<u>Cost Component</u>	<u>Total</u>	<u>New Construction</u>	<u>Renovation</u>
New Construction Cost	\$0	\$0	
Renovation Cost	\$2,365,000		\$2,365,000
Total Fixed Equipment Cost	\$1,513,905		
Total Non-Fixed Equipment Cost	\$582,450	\$0	
Capital Improvement			
Land Cost	\$0		
Site Preparation Cost	\$0	\$0	
Fees (Architectural, Consultant, etc.)	\$236,500	\$0	\$236,500
Contingency Reserve	\$283,800	\$0	\$283,800
Capitalized Interest		\$0	\$0
Total Proposed Capital Expenditure	\$4,981,655	\$0	\$2,885,300

Square Footage	11,000		11,000
Allocation Percent		0.00%	100.00%

Costs Less Land, Non-Fixed Eqt. & Cap. Improvement	\$4,399,205	\$0	\$2,885,300
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Cost Per Square Foot		\$262.30
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