

**DIVISION OF HEALTH PLANNING
AND RESOURCE DEVELOPMENT
MARCH 2004**

**CON REVIEW HG-RC-1203-037
WESLEY HEALTH SYSTEM, LLC DBA WESLEY MEDICAL CENTER
CONSTRUCTION/RENOVATION AND EXPANSION OF
EMERGENCY DEPARTMENT
CAPITAL EXPENDITURE: \$5,415,000
LOCATION: HATTIESBURG, LAMAR COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Wesley Health System, LLC dba Wesley Medical Center (WMC) is a short-term acute medical-surgical and diagnostic facility. The hospital is a proprietary hospital owned by Wesley Health System, LLC. Wesley Health System, LLC is a for-profit Delaware limited liability company, qualified to transact business in Mississippi. WMC is governed by a 14-member Board of Trustees. The hospital also has an ambulatory surgery facility on its campus.

The hospital's licensed bed complement includes 211 acute care beds in the following licensure categories:

Medical-Surgical	189
Intensive/coronary care	<u>12</u>
Total	211

WMC's occupancy rates, average lengths of stay (ALOS) and the Medicaid utilization rates for the medical/surgical beds for the three most recent fiscal years as follows:

Wesley Medical Center Utilization Data

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2000	52.13	5.53	11.45
2001	47.77	5.44	13.84
2002	52.12	5.39	11.13

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

B. Project Description

Wesley Health System, LLC dba Wesley Medical Center requests Certificate of Need (CON) authority for construction, renovation, and expansion of the emergency department at WMC. The proposed project will encompass a total of 18,681 square feet of space, to include 3,334 square feet of new construction and 15,347 square feet of renovated space. The applicant indicates that the new construction will include a separate and distinct walk-in access for the emergency department. WMC asserts that the current emergency department entrance at the hospital is combined with the ambulance entrance, and the waiting space is very limited. The renovated space would involve a reconfiguration of space to provide services as follows: 2 triage rooms for patient assessment; 13 exam rooms, 2 trauma rooms; 2 cardiac rooms, and 5 "fast track" exam areas to serve a growing need for patients who meet this criterion; and more convenient access to the trauma rooms and cardiac observation area from the existing ambulance canopy. WMC believes that the establishment of the fast track rooms will enhance the services rendered to patients who do not require trauma care, but who need medical care delivered in a timely manner just the same. Because the emergency department very often involves imaging services, direct access to the imaging department will be maintained.

According to the applicant, this proposed project involves no change in the range, facilities served, or types of services offered at the hospital, only an expansion and renovation of space in its emergency department to accommodate current patient needs.

The total proposed capital expenditure is \$5,415,000 for new construction - 13.85 percent, renovation - 41.49 percent, fixed equipment - 2.29 percent, non-fixed equipment - 23.91 percent, site preparation - 1.57 percent, fees - 4.80 percent, contingency reserve - 5.54 percent, capitalized interest - 2.68 percent, and other costs (information system/telecommunications) - 3.86 percent. The applicant proposes to finance the proposed project through reserves of the corporation, Wesley Health System, LLC.

The applicant indicates that the proposed capital expenditure will be obligated after CON approval, and the project will be completed approximately 12 to 18 months thereafter.

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

II. TYPE OF REVIEW REQUIRED

Construction/renovation and expansion projects are reviewed in accordance with Section 41-7-191, subparagraphs (1)(j), of the Mississippi Code of 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, any affected person may request a public hearing on this project within 20 days of publication the staff analysis. The opportunity to request a hearing expires on April 15, 2004.

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

A. State Health Plan (SHP)

The **FY 2004 State Health Plan** addresses policy statements, criteria and standards which an applicant is required to meet before receiving CON authority for construction/renovation/relocation and expansion projects.

SHP Criterion 1 - Need

According to WMC, the emergency department at WMC has not been significantly renovated or expanded since it was built in 1980. WMC believes that an emergency department built to serve approximately 10,000 patient visits in the 1980s is not architecturally designed for emergency services and treatment patterns now, particularly due to the type of patients who are seeking emergency care and the need for triage, fast tracking and appropriate waiting space for patients seeking emergent care. The applicant asserts that in recent years, there have been substantial increases in the number of patients presenting at the emergency department for less emergent illnesses and injuries. This trend amplifies the need for appropriate space design and facilities to care for the acuity level of each specific patient presenting for care at WMC.

According to WMC, the emergency department has experienced growth in the number of patients treated in its emergency department. In 2002, WMC treated 29,962 patients in its emergency department, as compared to 31,134 patients treated in 2003 (January - November, 2003 only). Annualizing emergency room visits for 2003 would indicate a total of 33,965 visits. This represents a 13 percent increase in emergency room visits in one year. Additionally, the statistics for the month of November 2002, as compared to November 2003, indicate a 34 percent increase in visits in November alone (2,401 patients seen in November 2002 and 3,221 patients seen in November 2003). WMC states that other statistics indicate that on average a patient will be required to wait one hour and 20 minutes before being seen by a physician.

According to WMC, the hospital has proven that the fast track system will improve the statistics by conducting a pilot study for two months where designated beds were utilized for fast track emergent care. As a result, the number of patients leaving the emergency room without treatment fell dramatically. WMC had to discontinue this designation because the space is simply not available for dedicated space or areas. Three to four percent of the patients who seek emergency care at WMC leave before they receive treatment. An overall goal of this proposed project is to reduce average length of stay (both waiting and treatment time) in the emergency department and to expand a department that is currently physically restricted.

The applicant believes that certain space and proximity changes would improve communication between staff and patients in rendering organized and coordinated emergency services at WMC.

SHP Criterion 3 - Charity/Indigent Care

The applicant asserts that WMC provides and will continue to provide indigent/charity care

to its patients who cannot pay for their services.

SHP Criterion 4 - Project Cost

Wesley Medical Center submits that the cost of the proposed project's new construction will be \$325.48 and renovation cost per square foot is \$184.14. The applicant asserts that the cost of new construction is higher than the normal range for general hospital construction, based on the **2003 Means Construction Cost Data**, due to the fact that the project costs are allocated to an area of new construction of only 3,334 square feet.

According to WMC, the projected equipment costs are in line with similar projects.

B. General Review (GR) Criteria

Chapter 8 of the **Mississippi Certificate of Need Review Manual**, May 13, 2000 revisions, addresses general criteria by which all CON applications are reviewed. This application is in substantial compliance with general review criteria.

GR Criterion 3 - Availability of Alternatives

According to the applicant, the alternatives considered are as follows:

Expand and renovate emergency department. The proposed project is the result of WMC's continuing efforts to serve its patients. WMC reviewed its utilization statistics, the length of time a patient waits before being treated by a physician in the emergency room, and the number of patients who leave the emergency department before they receive treatment. The applicant asserts that although Wesley Medical Center has received excellent ratings on its emergency department service from patients who were treated there, the hospital is continuing its focus on further improving the services it offers in the emergency department. This proposed project is vital to the continued delivery of emergency services at WMC.

Continue to offer emergency services without renovation or expansion. The applicant submits that choosing not to pursue this emergency department expansion and renovation would result in patients not receiving appropriate and timely emergent care. Applicant believes that this alternative is not in the best interest of the patient population seeking care at Wesley Medical Center.

GR Criterion 4 - Economic Viability

Based on the applicant's three year projections, this project will be economically viable the first three years of operation with net incomes of \$829,000, \$894,000 and \$964,000 the first, second, and third year, respectively.

GR Criterion 5 - Need

According to WMC, the hospital 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 asserts that the proposed project is necessary not only due to the increases in the number of patients seeking care at the emergency department, but also due to the types of cases seeking emergent care.

WMC asserts that a significant part of the proposed project relates to renovated space, and only a limited square footage amount of new construction. Although some additional new construction is proposed because the emergency department is undersized, a reconfiguration and appropriate ER design is the priority of the proposal. WMC seeks to update its triage area, provide for the efficient flow of patients through emergency and imaging, streamline the processing of patients and their respective medical records throughout the department, improve patient privacy and confidentiality and expand the space available for patients' family members in the emergency waiting room. The acuity levels of patients presenting at the emergency department at WMC vary from day to day, and the department space planning and functionality should accommodate those varying levels. The reconfiguration of the emergency department will allow trauma patients to be separated and given priority treatment.

According to the applicant, the final objective of the proposed project is to expand and renovate the emergency department to meet the current and future demand for emergency services of patients seeking care at WMC .

The application contained six (6) letters of support/comments for the project. Forrest General also submitted comments on the project.

No letters of opposition were received on this project.

GR Criterion 6 - Access to the Facility or Service

Applicant asserts that all residents of the service area have and will continue to have access to the services offered by WMC, including Medicaid recipients, charity/medically indigent patients racial and ethnic minorities, women, handicapped persons and the elderly.

WMC projected utilization of the proposed service by medically indigent patients at three percent.

GR Criterion 7 - Information Requirement

WMC affirms that it will record and maintain the requested information and make it available to the Mississippi State Department of Health within 15 days of request.

GR Criterion 8 - Relationship to Existing Health Care System

Wesley Medical Center is located in General Hospital Service Area (GHSA) 6, which contains 1,194 licensed acute care beds. The applicant believes that the proposed project is vital to the continued delivery of emergency services to patients seeking care at Wesley Medical Center. No new services or licensed beds will be created as a result of this project.

WMC asserts that this application anticipates no adverse impact on other health care providers within the planning area due to the fact that no new beds or services will be added.

GR Criterion 9 - Availability of Resources

Wesley Medical Center projects two additional FTE personnel at annual cost of \$144,000 for the proposed project.

The applicant asserts that any needed personnel will be recruited through present recruiting efforts and affiliation arrangements of the hospital.

GR Criterion 10 - Relationship to Ancillary or Support Services

According to the applicant, any increase in the use of ancillary or support services can be appropriately accommodated by Wesley Medical Center.

GR Criterion 16 - Quality of Care

The applicant is in compliance with the Minimum Standards of Operation for Mississippi Hospitals, according to the Division of Health Facilities Licensure and Certification.

Wesley Medical Center is accredited by the Joint Commission on Accreditation of Health Care Organizations.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

New Construction	\$ 750,150
Renovation	\$2,246,850
Fixed Equipment	\$ 124,168
Non-Fixed Equipment	\$1,294,832
Site Preparation	\$ 85,000
Fees	\$ 260,000
Contingency Reserve	\$ 300,000
Capitalized Interest	\$ 145,000
Other Costs	\$ 209,000
Total Capital Expenditure	\$5,415,000

The above estimated capital expenditure is proposed for construction, renovation and expansion of the emergency department at WMC. The proposed project will add approximately 3,334 square feet of new space at an estimated cost of \$325.48 per square foot and 15,347 square feet of renovated space at a cost of \$184.14 per square foot. **Means Building Construction Cost Data 2004** shows the high range per square foot cost of new construction to be \$248 per square foot.

The proposal also includes the purchase of fixed and non-fixed equipment.

B. Method of Financing

The applicant states that the proposed project's capital expenditure of \$5,415,000 will be financed through accumulated cash reserves of Triad Hospitals, Inc., the parent corporation.

C. Effect on Operating Cost

The applicant projects the following expenses, utilization, and results from operation for the first three years following completion of the project:

Expenses	Year 1	Year 2	Year 3
Salaries & Benefits	\$ 115,000	\$ 124,000	\$ 132,000
Employee Benefits	\$ 29,000	\$ 31,000	\$ 33,000
Supplies	\$ 511,000	\$ 545,000	\$ 583,000
Contract Services	\$ 20,000	\$ 21,000	\$ 23,000
Repairs & Maintenance	\$ 12,000	\$ 12,000	\$ 13,000
Utilities	\$ 5,000	\$ 5,000	\$ 5,000
Insurance	\$ 55,000	\$ 58,000	\$ 63,000
Bad Debts	\$ 351,000	\$ 376,000	\$ 404,000
Non-Income Taxes	\$ 18,000	\$ 19,000	\$ 20,000
Other Operating Expenses	\$ 4,000	\$ 4,000	\$ 4,000
Total Expenses	\$1,120,000	\$1,195,000	\$1,280,000

Utilization

Patient Days	Outpatient Visits	Emergency Room Visits	Year
996	1,500	1,500	Year 1
1,031	1,560	1,560	Year 2
1,070	1,622	1,622	Year 3

Cost/pt. Day	\$1,125	\$1,160	\$1,196
Charge/Pt. Day	\$4,811	\$5,069	\$5,338

Revenue

Total Pt. Rev.	\$4,792,000	\$5,226,000	\$5,712,000
Deductions	\$2,843,000	\$3,137,000	\$3,468,000
Net Revenue	\$1,949,000	\$2,089,000	\$2,244,000
Net Income	\$ 829,000	\$ 894,000	\$ 964,000

D. Cost to Medicaid/Medicare

Patient Mix by type of Payor	Utilization	First Year Cost
Medicaid	16.6	\$ 185,920
Medicare	50.3	\$ 563,360
Other Payor*	33.10	\$ 370,720
Total	100	\$1,120,000

*The applicant projects 3 percent of gross patient revenues to be provided to medically indigent/charity care patients.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for comment. However, no written comments were received.

VI. CONCLUSION AND RECOMMENDATION

The project is in substantial compliance with the criteria and standards for construction, renovation, relocation, and expansion as contained in the **FY 2004 State Health Plan**; Chapter 8 of the **Certificate of Need Review Manual**, 2000 revisions; and all 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 Wesley Medical Center.