

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
JULY 2009**

**CON REVIEW HG-A-0509-013
SINGING RIVER HOSPITAL SYSTEM d/b/a SINGING RIVER HOSPITAL
AMENDMENT TO CON No. R-0763
(MEDICAL OFFICE BUILDING) ADDITION of WELLNESS CENTER
ORIGINAL CAPITAL EXPENDITURE: \$13,628,201
ADDITIONAL CAPITAL EXPENDITURE: \$8,610,409
TOTAL CAPITAL EXPENDITURE: \$22,238,610
LOCATION: PASCAGOULA, JACKSON COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Singing River Hospital System (SRHS) d/b/a Singing River Hospital (SRH) is a 435-bed not-for-profit, short-term, general acute care, public hospital located in Pascagoula, Jackson County, Mississippi. SRH licensed beds consist of 385 acute care beds, 30 psychiatric beds, and 20 rehabilitation beds. SRHS is comprised of two hospitals: 1) Singing River Hospital in Pascagoula, Mississippi, and 2) Ocean Springs Hospital in Ocean Springs, Mississippi, plus six community medical clinics throughout the Gulf Coast. SRHS is owned by Jackson County and is governed by a nine-member Board of Trustees. The facility is certified to participate in the Medicare and Medicaid programs and is accredited by the Joint Commission on Accreditation of Healthcare Organizations.

The occupancy rates, average lengths of stay (ALOS), and the Medicaid utilization rates are as follows for the years 2006, 2007, and 2008:

Utilization Data			
Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2006	25.59	4.51	16.38
2007	24.83	4.26	18.17
2008	25.53	4.18	11.38

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

B. Project Background

Singing River Hospital System d/b/a Singing River Hospital was issued Certificate of Need (CON) No. R-0763, with an effective date of June 26, 2008, and an expiration date of June 26, 2009. The CON authorized SRH to construct a three-story medical office building (MOB) adjacent to the existing hospital, on a site owned by the hospital.

The MOB consists of approximately 54,812 square feet of new construction. The new construction square footage is comprised of the following: 26,000 square feet of rentable space, 6,000 square feet to support the Neuro-Sciences Center, 13,000 square feet will be allocated to the Radiology Department, and the Physical, Occupational, and Speech Therapy Departments will consume approximately 5,500 square feet of space. The 4,312 square feet of space not accounted for will be used for non-inhabitable space associated with the project.

C. Project Description

Singing River Hospital now requests Certificate of Need authority for an amendment on CON No. R-0763. The applicant states that the organization has decided to increase the square footage of the MOB by approximately 32,601 square feet. The additional square footage will allow SRH to provide a 20,815 square foot, state-of-the-art, wellness center ("the wellness center") to the first floor of the MOB. The wellness center will be available to all employees, as well as the community, and consists of the following: an open gym, a three-lane lap pool, locker rooms, and fitness classrooms. The Physical, Occupational, and Speech Therapy Departments will be increased by 7,200 square feet. The applicant proposes to relocate the hospital's existing Cardiac Rehabilitation services to approximately 3,700 square feet of space and utilize 886 square feet for outpatient laboratory services in the MOB.

SRH asserts that no change in site is expected as a result of the amendment. The applicant further asserts that the role of current employees will be expanded to direct the wellness center and others to provide training i.e. exercise physiologists.

The applicant states that the additional space will not be utilized to add any medical services to the project. The applicant submits the following table detailing the summary of changes:

Original CON No. R-0763 Compared to Proposed Plan

	Original CON Approved Sq Footage	Proposed Sq Footage	Percent of Change
Rehabilitation (PT)	5,500	12,700	130.91%
Radiology	13,000	12,250	(5.77%)
Cardiac Rehab	Not included	3,700	-
Lab	Not included	886	-
Neuro Sciences Ctr.	6,000	13,012	116.87%
Rentable Space	26,000	5,200	(80.00%)
Wellness	Not included	20,815	
Registration	1,177	1,177	0.00%
Usable Sq Footage	51,677	69,740	34.95%
Non-exclusive/Common Area	3,135	6,539	39.16%
Gross Sq Footage	54,812	76,279	39.16%
TOTAL COST	\$13,628,201	\$22,238,610	63.18%
Const related cost	\$12,371,501	\$20,981,910	69.60%
Cost per Sq Foot	\$226	\$275	21.87%

The applicant submits the following to substantiate the significant change in scope and additional capital expenditure of the CON Amendment for CON No. R-0763:

1. **Change in scope of work.** The original approved CON No. R-0763 was for a 54,812 square foot medical office building. The proposed new medical office building square footage is 76,279 square feet or a 39.16% increase in the size of the MOB.
2. **Cost.** The original approved capital expenditure for CON No.R-0763 was \$13,628,201. The cost of the proposed project's capital expenditure is \$22,238,610 or a 63.18% increase in the total cost of the facility.

SRH believes that patients in their service area should have a centralized location where they can have easy access to the ancillary services offered by the hospital and the services offered by employed and non-employed physicians. The applicant further states that currently patients must travel to and from physician offices and the hospital to have procedures done or to pick up reports or preparations for procedures. SRH asserts that the MOB can alleviate this burden with the construction of the MOB being on the hospital's campus, and the delivery of healthcare can be more efficient for patients. Patients will be able to take advantage of doctor's offices that are conveniently located near diagnostic and therapeutic

services. Also, the convenience of a wellness center will promote a healthier lifestyle for SRH's patients and offer the opportunity for a speedier recovery from various illness, injuries, and/or disease processes.

The application contains a signed letter from AIA Architect Firm attesting that based upon their preliminary review for the approximately 76,279 gross square foot MOB, they concur that \$275.06 per square foot, or \$20,981,910 are acceptable project cost (excluding the cost for non-fixed equipment).

According to the applicant, the construction will begin in July 2009 with an estimated completion date of October 2010.

II. TYPE OF REVIEW REQUIRED

The original project was 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.

The State Health Officer reviews all projects for amendment in accordance with 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 August 11, 2009.

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

A. State Health Plan

The original application was in substantial compliance with the *FY 2007 State Health Plan*, in effect at the time the original application was submitted. This amendment project continues to be in substantial compliance with the *Mississippi State Health Plan*.

B. General Review 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. This application was in substantial compliance with general review criteria at the time of original submission, and continues to be in compliance with applicable general review criteria and standards contained in the *Certificate of Need Review Manual*.

The applicant believes that there is a need for a wellness center in the community, for the hospital, and SRH employees. As part of SRH's planning process SRH consulted with various groups which included the City of Pascagoula and the local YMCA. They too agreed that a wellness center is needed for the citizens in General Hospital Service Area 7 (GHSA 7).

According to the applicant, the wellness center will be available to the entire community, including the poor, elderly, and underserved. Various pricing and promotions will be available to allow the same population to benefit from the services offered at the wellness center.

The wellness center will assist the organization as it strives to meet requirements of its corporate tax exempt structure. Also, the wellness center facilitates the increase in the positive overall health of the citizens in GHSA 7. The applicant states that the physical rehabilitation patients and cardiac rehabilitation patients will benefit significantly from the wellness center. This project will allow physical rehabilitation and cardiac patients to continue an exercise regiment that is prescribed to them upon discharge without fear of over doing the exercise. The patients can continue their exercises at the wellness center where they can access trained professionals to assist and monitor them with their exercises.

The hospital has implemented an enhanced insurance benefit program for their employees. If an employee does not smoke, get a yearly check-up, and joins a wellness center, they qualify for the enhanced insurance plan. The benefits of an enhanced insurance plan allows the employee to pay a less expensive co-pay and have a lower deductible, on the contrary the traditional insurance plan does not offer these amenities.

Wellness Centers are non-reviewable by the Mississippi State Department of Health, thus this amendment compares favorably with those approved in the past.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

Cost Item	<u>Approved Capital Expenditure</u>	<u>Revised Capital Expenditure</u>	<u>Increase (Decrease)</u>
Construction Cost -- New	\$9,821,175	\$16,198,046	\$6,376,871
**Non-Fixed Equipment Cost	1,256,700	1,436,276	179,576
*Capital investment			0
Site Preparation Cost	863,748	1,620,914	757,166
Fees (Architectural, Consultant, etc.)	970,797	1,523,489	552,692
Contingency Reserve	220,000	315,000	95,000
Capitalized Interest	306,281	584,375	278,094
Legal and Accounting Fees	159,500	223,500	64,000
Insurance		313,010	313,010
Other (signage)	<u>30,000</u>	<u>24,000</u>	<u>(6,000)</u>
Total Proposed Capital Expenditure	<u>\$13,628,201</u>	<u>\$22,238,610</u>	<u>\$8,610,409</u>

***Included in figures with other (signage).**

****See Attachment II for the Wellness Center equipment list.**

The capital expenditure approved in the original CON was \$13,628,201 and the additional costs for this proposed amendment are \$8,610,409, resulting in a total revised capital expenditure of approximately \$22,238,610. The proposed amendment involves approximately 76,279 square feet of new space at an estimated cost of \$265.68 per square foot (see Attachment 1). The *Means Construction Cost Data, 2009 Edition*, does not compare costs of construction for MOB's.

The applicant has added several components to the latest design plan for the MOB, which was not listed in the original Certificate of Need application. The MOB will now include a wellness center and an area for cardiac rehabilitation and laboratory services. The wellness center will be fee-based with an expected membership fee of \$59.00 per month. SRH intends to provide cardiac and physical rehabilitation discharge patients with a month of free membership and free transportation during that period to and from the facility. This will allow the patient an opportunity to employ a healthy lifestyle change and develop good exercise habits in those early yet critical days past discharge.

This amendment is classified as a change in scope from the original project; however, it does not change the overall objectives of the original project.

The architect firm selected to construct the MOB submits the following information regarding the construction status of the original project:

- ✓ Schematic Drawings for Shell Core – 100% complete
- ✓ Design Development Drawings for Shell and Core - 100% complete
- ✓ Structural Piling and foundation Drawings for Shell and Core – 100% complete
- ✓ Schematic Drawings for Interior Tenant Planning – 100% complete
- ✓ Construction Document Drawings for Shell and Core – 50% complete

The applicant notes that legal work, project programming and design process have consumed the time from initial CON approval through the present time; nevertheless, the applicant believes that the project is still on schedule.

The applicant asserts that approximately \$133,504.78 of the original capital expenditure had been expended as of April 17, 2009, and submits the following itemized table for justification of the expenditures.

**SINGING RIVER MOB
 CAPITAL EXPENDITURE MADE TO DATE**

ITEM	AMOUNT EXPENDED
Travel/Office Expenses	\$18,352.66
Development Fee	18,000.00
Phase I Fee	20,000.00
Architectural Fees	30,637.72
Engineering Fees	22,075.00
Legal Fees	2,094.40
Advisory service (Neuro-Sciences Center)	10,000.00
Accounting Fees	1,945.00
Environmental Services	10,400.00
TOTAL	\$133,504.78

B. Method of Financing

The applicant asserts that the structure of this venture enables SRH to avoid incurring debt from this project. On April 21, 2009, Hancock Bank agreed to provide Johnson Development with the necessary financing for the project.

C. Effect on Operating Cost

The applicant states that SRH's original projected three-year operating statement, revenue, net income, and utilization for the three years of operation for the original project will not be affected and only a minimal impact on expenses per patient days and per procedures as a result of the proposed amendment will occur. The following table indicates operating revenue and expenses for the wellness center:

Wellness Center Three-Year Operating Statement			
	Year 1	Year 2	Year 3
Revenue	\$1,958,367.00	\$2,285,904.00	\$2,627,241.00
Adjustments	(111,534.00)	(23,056.00)	(24,522.00)
Total Net Operating Revenue	\$1,846,833.00	\$2,262,848.00	\$2,602,719.00
Operating Expenses	\$2,065,245.00	\$2,068,209.00	\$2,173,899.00
Exercise Equipment	20,522.94	20,522.94	20,522.94
Total Operating Expense	\$2,085,767.94	\$2,088,731.94	\$2,194,421.94
Net Operating Income (Loss)	(\$238,934.94)	\$174,116.06	\$408,297.06

D. Cost to Medicare/Medicaid

SRH asserts that no material impact to Medicaid and third party payors will be expected by the proposed project.

V. RECOMMENDATION OF OTHER AFFECTED AGENCIES

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

VI. CONCLUSIONS AND RECOMMENDATION

This project continues to be in substantial compliance with the overall objectives of the FY 2007 *State Health Plan; Certificate of Need Review Manual*, Revised 2008; and all adopted rules, procedures, and plans of the Mississippi State Department of Health in effect at the time of approval. The project is a change in scope from the original project, but does not change the overall objectives of the project.

The Division of Health Planning and Resource Development recommends approval of the application submitted by Singing River Hospital System d/b/a Singing River Hospital for an amendment to CON No. R-0763 for the addition of a wellness center.

**Singing River Hospital System
 d/b/a
 Singing River Hospital
 Attachment 1**

Computation of Construction and Renovation Cost

Cost Component	Total	New Construction	Renovation
New Construction Cost	\$16,198,046	\$16,198,046	
Renovation Cost			\$0
Total Fixed Equipment Cost			\$0
Total Non-Fixed Equipment Cost	\$1,436,276	\$1,436,276	
Land Cost	\$0	\$0	
Site Preparation Cost	\$1,620,914	\$1,620,914	
<i>Fees (Architectural, Consultant, etc.)</i>	\$1,523,489	<i>\$1,523,489</i>	<i>\$0</i>
<i>Contingency Reserve</i>	\$315,000	<i>\$315,000</i>	<i>\$0</i>
<i>Capitalized Interest</i>	\$584,375	<i>\$584,375</i>	<i>\$0</i>
<i>Other</i>	\$24,000	<i>\$24,000</i>	
Total Proposed Capital Expenditure	\$21,702,100	\$21,702,100	\$0
Square Footage	76,279	76,279	
<i>Allocation Percent</i>		100.00%	0.00%
Costs Less Land, Non-Fixed Eqt., Other	\$20,265,824	\$20,241,824	\$0
Cost Per Square Foot	\$265.68		

**Attachment II
 Proposed Equipment List
 Wellness Center**

<u>Description</u>	<u>Qty</u>	<u>Unit Price</u>	<u>Total</u>
Treadmill with video	10	\$5,947.50	\$59,475.00
Cross Trainer Bike	10	\$4,402.50	\$44,025.00
Upright Bike, video	3	\$2,934.75	\$8,804.25
Recumbent Bike, video	6	\$3,243.75	\$19,462.50
Abdominal frame.PLT	1	\$2,894.25	\$2,894.25
Biceps Curl Frame	1	\$2,894.25	\$2,894.25
Back Extension Frame	1	\$2,980.00	\$2,980.00
Chest Press	1	\$3,065.00	\$3,065.00
Hip Abduction	1	\$2,809.00	\$2,809.00
Leg Extension	1	\$3,150.00	\$3,150.00
Lateral Rise	1	\$2,894.25	\$2,894.25
Pulldown Frame	1	\$2,980.50	\$2,980.50
Row Rear Delt	1	\$2,894.00	\$2,894.00
Leg Curl	1	\$3,235.50	\$3,235.50
Leg Press	1	\$4,598.25	\$4,598.25
Shoulder Press	1	\$2,894.25	\$2,894.25
Triceps Press	1	\$2,809.00	\$2,809.00
Torso Rotation	1	\$3,065.00	\$3,065.00
Pulley Frame	1	\$2,809.00	\$2,809.00
Strength Biceps	<u>1</u>	<u>\$1,836.75</u>	<u>\$1,836.75</u>
Total	45		\$179,575.75