

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
OCTOBER 17, 2016**

**CON REVIEW: HG-A-0715-015
SINGING RIVER HEALTH SYSTEM
D/B/A SINGING RIVER HOSPITAL
AMENDMENT AND COST OVERRUN TO CON R-0761
(CON REVIEW HG-R-1207-031)
RENOVATION OF EMERGENCY DEPARTMENT AND PATIENT CARE AREA
ORIGINAL CAPITAL EXPENDITURE: \$9,473,202.00
ADDITIONAL CAPITAL EXPENDITURE: \$4,445,943.00
REVISED CAPITAL EXPENDITURE: \$13,919,145.00
LOCATION: PASCAGOULA, JACKSON COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Singing River Hospital System (SRHS) is composed of Singing River Hospital (404 licensed beds) located in Pascagoula, Mississippi (MS) and Ocean Springs Hospital (136 licensed beds) in Ocean Springs, MS. Both hospitals are voluntary, not-for-profit institutions, publicly owned by the citizens of Jackson County, Mississippi. SRHS is governed by a nine-member Board of Trustees appointed by the Jackson County Board of Supervisors. Members are appointed as representatives from each district, with two members being appointed from the county at-large. SRH is fully accredited by the Joint Commission on Accreditation of Healthcare Organizations.

B. Project Background

Singing River Hospital d/b/a Singing River Hospital ("Singing River", "the applicant" or "SRH") requested Certificate of Need (CON) authority to renovate and refurbish certain patient care areas and the emergency department in order to bring the units up to current standards of care. The modifications relate to six areas within the facility and equal 49,971 square feet of space.

As a note, Singing River Hospital applied for a Six Month Extension on February 27, 2015; however, it was denied because the project was over budgeted for more than two years. Singing River Hospital requested a hearing on the denial of the six month extension but also filed a Cost Overrun application on July 31, 2015. Singing River Hospital later withdrew the Six Months Extension hearing request. On November 16, 2015, SRH filed an application for an Extension/Renewal of an Expired CON and it was approved on March 4, 2016.

The Department approved the project for a six months extension on June 29, 2016 to extend the expiration date of the CON to December 19, 2016.

B. Project Description

Singing River Health System requests CON authority for a Cost Overrun of \$4,445,943.00 to CON No. R-0761. Thus, the cost overrun application filed with the Department requests CON authority to increase the capital expenditure of CON No. R-0761 from \$9,473,202.00 to \$13,919,145.00. The applicant asserts the project has commenced; however there has been an unanticipated need for additional asbestos testing and abatement required for the patient care areas of the hospital. Also, the hospital has aging structures that were constructed many years ago. The applicant states that as a result, when renovations of an aging structure are undertaken, there are unanticipated expenditures associated with the renovation.

The applicant states that fire sprinklers were included in the initial project cost; however there was a need for larger fire water risers that were not anticipated as a part of the estimated capital expenditure. Also, once the renovations began it was determined that the fire alarm system and appropriate field devices would be required for this project. The applicant states another added cost that was not included in the original capital expenditure involves computers and network wiring for the installation and operation of an Electronic Medical Records (EMR) system. The applicant asserts that electronic medical records system are now required by Federal regulations for health care providers, but were not contemplated as an expenditure required for this project when originally filed in 2007.

Singing River Health System states that once demolition of the walls began in the patient care areas, the current condition of piping was determined to require replacement. Thus, additional expense was incurred to address these pressing issues, to include replacement of piping and structural walls in those areas. It was also determined that a two-hour fire wall separation was needed to comply with code requirements of Mississippi State Department of Health and Licensure regulations. Once the renovation began on the HVAC system and piping it was determined, due to aging the existing HVAC system could not meet the more recent air quality requirements for patient care areas.

The applicant states in order to meet the most current codes, the medical gas piping size had to be increased; zone valves relocated and new medical gas alarms installed for patient care areas. Also, during renovations the ER experienced a failed heating system, which required replacement. Additionally, the original CON application capital expenditure summary did not include the construction management fees totaling \$737,365.00. The applicant states at the time of submission of the Certificate of Need the application capital expenditure summary did not include any capitalized interest. The capitalized interest total is \$2,196,885.00.

Information involving other items, which contributed to the increase in the capital expenditure, is detailed in the CON/Cost Overrun application.

The original project was financed by a bond referendum. The applicant asserts the funding sources will remain the same. The application included audited financial statements. The revised depreciation schedule was listed originally in the amount of \$236,830.05 and now the additional depreciation expense is \$111,148.58.

II. TYPE OF REVIEW REQUIRED

The Mississippi State Department of Health (MSDH) reviewed the original project 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.

The State Health Officer reviews all projects for cost overruns 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 or 1972 Annotated, as amended, any affected person may request a public hearing on this project within 10 days of publication of this staff analysis. The opportunity to request a hearing expires on October 27, 2016.

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

A. State Health Plan (SHP)

The *FY 2014 Mississippi State Health Plan (MSHP)* was in effect at the time the original application was submitted to the Department and the original application was found to be in substantial compliance with the *FY 2014 MSHP*. The cost overrun project continues to be in substantial compliance with the *FY 2015 MSHP*.

B. General Review (GR) Criteria

The *Certificate of Need Review Manual, 2011 Revision (CON Review Manual, 2011)* was in effect at the time the original application was submitted to the Department. The original project was in substantial compliance with *the CON Review Manual, 2011* and the CON cost overrun application continues to be in compliance with applicable General Review Criteria and Standards contained in the *CON Review Manual, 2011*.

IV. FINANCIAL FEASIBILITY

Capital Expenditure Summary (See Table on Next Page)

A. Capital Expenditure Summary

	Original Approved Amount	Revised Amount	Increase/ (Decrease)
1. New Construction Cost	0	0	0
2. Construction/Renovation	\$7,758,202	\$10,018,507	\$2,260,305
3. Land	0	0	0
4. Site Work	0	0	0
5. Fixed Equipment	0	0	0
6. Non-Fixed Equipment	0	0	0
7. Contingency	\$950,000	0	-\$950,000
8. Fees (Architectural, Consultant, etc.)	\$765,000	\$1,703,753	\$938,753
9. Capitalized Interest	0	\$2,196,885	\$2,196,885
10. Other	0	0	0
Total Capital Expenditure	\$9,473,202	\$13,919,145	\$4,445,943

The above table represents approximately a 46.9% increase in the capital expenditure by Singing River hospital. At the time of the filing of the cost overrun application, the applicant asserts that the facility renovated a total of 33,069 square feet of space and affirms that 100% of the project is complete.

B. Method of Financing

The original project was financed by a bond referendum. The applicant asserts the funding sources will remain the same.

C. Effect on Operating Cost

The applicant's projections of gross revenues for the first, second, and third year of operation, expenses, net income, utilization, cost, charges depreciation schedule and Three-Year Projected Operating Statement are shown in Attachment 1 in the original application. The applicant asserts the above mention will change in the cost overrun application (see Attachment 2).

D. Cost to Medicaid/Medicare

The applicant asserts that the amendment and cost overrun for this project will not have any significant impact on Medicaid patients, Medicare patients or other payors. The applicant asserts, generally hospitals are not paid or reimbursed based upon direct costs.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided an opportunity to review and comment on this project. Effective September 1, 2012, the Division of Medicaid changed the methodology by which it reimburses outpatient services so that the cost incurred, subsequent to that date, will no longer affect outpatient payments.

In addition, effective October 1, 2012, the Division changed the methodology by which it reimburses inpatient services so that the cost incurred, subsequent to that date, will only affect cost outlier payments.

VI. CONCLUSION AND RECOMMENDATION

This project continues to be in substantial compliance with the overall objectives of the *FY 2015 Mississippi State Health Plan; Certificate of Need Review Manual, Revision 2011*; and all adopted rules, procedures, and plans of the Mississippi State Department of Health in effect at the time of approval.

Therefore, the Division of Health Planning and Resource Development recommends approval of the application submitted by Singing River Health System d/b/a Singing River Hospital for a cost overrun to CON No. R-0761. The cost overrun project will allow Singing River Health System d/b/a Singing River Hospital to increase the authorized capital expenditure from \$9,473,202.00 to \$13,919,145.00 by \$4,445,943.00 for the Renovation of Emergency Department and Patient Care Area.

Attachment 1

Singing River Hospital
 Renovation of Patient Care Units and Emergency Department

	Year 1	Year 2	Year 3
Revenue			
Inpatient Care Revenue	\$ 294,294,546	\$ 317,838,110	\$ 343,265,158
Outpatient Revenue	254,687,464	275,062,461	297,067,458
Gross Patient Revenue	\$ 548,982,010	\$ 592,900,571	\$ 640,332,616
Charity	\$ 0	\$ 0	\$ 0
Deductions from Revenue	386,118,724	423,271,718	463,472,747
Net Patient Care Revenue	\$ 162,863,286	\$ 169,628,853	\$ 176,859,869
Other Operating Revenue	\$ 5,355,217	\$ 5,355,217	\$ 5,355,217
Total Operating Revenue	\$ 168,218,503	\$ 174,984,070	\$ 182,215,086
Operating Expenses			
Salaries	\$ 67,313,107	\$ 433,156	\$ 509,792
Benefits	17,471,489	168,931	198,819
Supplies	34,428,559	478,683	557,850
Services	11,693,820	0	0
Lease Expenses	1,453,936	166,246	166,246
Depreciation	7,354,204	175,220	175,220
Interest	1,161,374	0	0
Other	24,385,205	409,660	477,411
Total Operating Expenses	\$ 165,227,694	\$ 1,831,896	\$ 2,085,338
Net Operating Income (Loss)	\$ 2,990,809	\$ 171,841,251	\$ 178,667,734
Net Operating Income	\$ 2,990,809	\$ 3,142,819	\$ 3,547,352
	Proposed Year 1	Proposed Year 2	Proposed Year 3
Assumptions			
Outpatient Visits	562,177	579,042	596,414
Inpatient Days	44,659	45,999	47,379
Charge per Outpatient Day	\$ 453	\$ 475	\$ 498
Charge per Inpatient Day	\$ 6,590	\$ 6,910	\$ 7,245
Charge per Outpatient Day	\$ 294	\$ 297	\$ 300
Cost per Inpatient Day	\$ 3,700	\$ 3,736	\$ 3,771

Attachment 2

**Singing River Hospital
 Renovation of Patient Care Units and Emergency Department With Project**

	Proposed Year 1	Proposed Year 2	Proposed Year 3
Revenue			
Inpatient Care Revenue	\$1,769,864,374	\$1,822,960,305	\$1,859,419,511
Outpatient Care Revenue	1,850,117,662	1,905,621,192	1,943,733,616
Gross Patient Care Revenue	\$3,619,982,036	\$3,728,581,497	\$3,803,153,127
Charity Care	\$100,980,240	\$104,009,647	\$106,089,840
Deductions from Revenue	2,883,657,694	2,970,167,424	3,029,570,773
Net Patient Care Revenue	\$635,344,102	\$654,404,426	\$667,492,514
Other Operating Revenue	\$22,885,751	\$23,572,324	\$24,043,770
Total Operating Revenue	\$658,229,853	\$677,976,749	\$691,536,284
Operating Expense			
Salaries	\$262,001,090	\$262,001,090	\$262,001,090
Benefits	54,660,300	54,660,300	54,660,300
Supplies	130,570,284	130,570,284	130,570,284
Services	107,190,140	107,190,140	107,190,140
Lease	11,378,124	11,378,124	11,378,124
Depreciation	47,482,482	47,482,482	47,482,482
Interest	9,744,626	9,744,626	9,744,626
Other	58,198,416	58,198,416	58,198,416
Total Operating Expense	\$681,225,462	\$681,225,462	\$681,225,462
Net Operating Income (Loss)	\$(22,995,609)	\$(3,248,713)	\$10,310,822