

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
NOVEMBER 2010**

**CON REVIEW HG-A-0810-030
HANCOCK MEDICAL CENTER
AMENDMENT TO CON #R-0620
(RENOVATION/EXPANSION OF OUTPATIENT & EMERGENCY SERVICES)
APPROVED CAPITAL EXPENDITURE: \$8,727,548
ADDITIONAL CAPITAL EXPENDITURE: \$22,805,443
REVISED CAPITAL EXPENDITURE: \$31,532,991
LOCATION: BAY ST. LOUIS, HANCOCK COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Hancock Medical Center (HMC) is a non-profit, short-term, general acute care, public hospital owned by Hancock County. The hospital is governed by a seven-member Board of Trustees, appointed by the Hancock County Board of Supervisors.

Hancock Medical Center consists of 47 licensed beds. The occupancy rates, average length of stay (ALOS), and Medicaid utilization for the three most recent years are as follow:

**Hancock Medical Center
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2007	53.10	3.68	N/A
2008	48.20	3.48	16.93
2009	44.20	3.58	18.22

Source: Division of Health Facilities Licensure and Certification, MSDH

B. Project Background

Hancock Medical Center (HMC) was issued CON #R-0620, with an effective date of September 25, 2003, for renovation and expansion of its outpatient and emergency services, with an extended expiration date of September 25, 2010, pursuant to an Attorney General's Opinion issued October 12, 2007, which led to the revision of the policy for CON extensions. The original project involved a total of 52,869 square feet of space, to include 3,511 square feet of new construction and 49,358 square feet of renovated space. Areas to be renovated

included: emergency department, imaging department, surgical suite, outpatient services, administrative/medical records, kitchen/dining, cardiopulmonary, pharmacy, inpatient rehab, inpatient room relocation/nursing station support, chapel, gift shop, laboratory, material management, outpatient lobby, offices, file storage, intensive care unit (modifications to 2 existing rooms), and public/staff corridors within/adjoining renovated areas. The original project also included new construction of approximately 3,511 square feet to accommodate a new outpatient entrance, along with associated reception and waiting area, new emergency department and northwest entrance walk-in vestibules.

Hancock Medical Center's original cost of new construction was estimated to be \$242 per square foot and \$152.63 per square foot for renovation. The original proposal also included purchase of fixed and non-fixed equipment.

Hancock Medical Center's six-month request submitted to the Department on March 2, 2010, asserts that a start date for the total project is pending final review and approval of final plans by the Mississippi State Department of Health, Facilities Licensure and Certification Division and Federal Emergency Management Agency (FEMA).

The applicant's six-month extension requests contain documentation which gives reasons for delay for the project. These requests are contained in the original Certificate of Need application (**#HG-RC-0503-014**, and **CON No.R-0620**) file.

The applicant was approved for the proposed capital expenditure of \$8,727,548, which included the following: new construction (5.89 percent), renovation (69 percent), fixed equipment (11 percent), non-fixed equipment (4.17 percent), site preparation (3 percent), contingency reserve (11.17 percent) and fees (3.05 percent). The original proposal was to be financed from private foundations (12 percent) and accumulated cash reserves (88 percent).

C. Project Description

Hancock Medical Center now requests Certificate of Need authority for an amendment and additional capital expenditure to its CON No. R-0620. The capital expenditure approved in the original CON is \$8,727,548 and the additional request for this amendment proposal is \$22,805,443, resulting in a revised capital expenditure of approximately \$31,532,991 for the project.

As a result of this amendment project the square footage for new construction will increase from 3,511 to 13,511, an increase of 10,000 square feet; and the square footage for renovation will increase from 49,358 to 95,622, an increase of

46,264 square feet. The amendment request is a change in scope but does not change the overall objectives of the project.

See Attachment 1 for computation of new construction and renovation cost (original plus additional square feet) for the project.

According to the applicant, the proposed changes include renovation to approximately 46,264 additional square feet of space area on the first floor involving: 10 patient rooms, a waiting room and related support space in the intensive care unit; 10 patient rooms, 4 labor and delivery rooms, a cesarean section room, a nursery and related support space in the obstetrics unit; a north lobby, waiting area and related support space; 39 patient rooms and related support space in the medical nursing unit; physicians conference room and related space; cardiac rehab and related support space; emergency department and related support space ; dietary kitchen and cafeteria; facilities services department; replacement of the exterior perimeter wall with a new integrated perimeter floodwall, drainage and entrance gate system; replacement of the south emergency generator unit; replacement and elevation of the north emergency generator unit; replacement of central plant chiller and electrical distribution equipment; replacement of air handler units serving the medical nursing unit, surgical services and dietary; extension of the existing sprinkler system; and new construction of approximately 10,000 additional square feet of space for supporting infrastructure to be used for temporary relocation of various departments and services during the course of the renovation and mitigation of the project.

The application contains cost estimates for renovation and mitigation prepared by Brassfield and Gorrie, LLC and a cost estimate for new construction prepared by Dean and Dean/Associates Architects.

According to the applicant, new equipment acquisitions include: surgical lights, surgical equipment booms, instrument washer, rigid endoscope washer, flexible endoscope and surgical instrument transport cart washer, surgical supply storage units, medical gas consoles, medical gas headwalls, patient beds, bed locators, over-bed lights, cardiopulmonary equipment washer & dryer, a vacuum tube delivery system, an outpatient radiographic system and miscellaneous furniture to support each functional area as required.

Hancock Medical Center asserts that this project has been delayed due to extended negotiations with FEMA following Hurricane Katrina to secure funding from FEMA anticipated for facility construction and hazard mitigation.

The applicant asserts that the proposed amendment is necessary due to the difference in the amount of restoration work approved in the original CON application and the amount of additional work required to complete repairs and mitigation work necessitated by Hurricane Katrina damage to the facility.

According to Hancock Medical Center, the physical plant is in need of modernization to remain safe as well as competitive in the marketplace while continuing to serve the medically under-served populations in Hancock County. The applicant states that it has attempted to maximize cost containment, provide protection for the environment, and design in ways to significantly improve energy conservation. Remaining competitive financially will allow HMC to continue servicing the community not only as an acute care hospital, but also through the hospital's outreach programs, rural health clinics, off-site outpatient departments in under-served areas of the county, and health clinics in area schools, etc. The applicant further asserts that Hancock Medical Center's long record of service to all segments of the population helps keep Hancock Medical Center the preferred health care provider for over 85 percent of its county's population, and this modernization will justify that community trust.

The applicant believes that the services provided as part of this project will improve the existing services provided already in intensive care, outpatient care, and emergency care. Being able to serve greater numbers of patients efficiently will keep the hospital in compliance with the *State Health Plan* and goals of providing cost effective care convenient to the population.

According to Hancock Medical Center, major construction has not started. It is anticipated that construction will start in late 2010 or early 2011 and be completed by the end of 2014. This project has been delayed due to extended negotiations with FEMA following Hurricane Katrina to secure funding. The applicant asserts that specific details for delays of the project have been communicated by HMC in each request to the Mississippi State Department of Health to extend CON No. R-0620.

Hancock Medical Center asserts that \$2,328,536 of the original capital expenditure (CON No. R-0620) has been spent as of August 31, 2010 on the following:

- Architect/Engineer (restoration project; \$144,620)
- Interior Design (restoration project; \$3,983)
- Legal (restoration project; \$4,465)
- Plan Reproduction (restoration project; \$1,428)
- Environmental Testing (restoration project; \$3,950)
- Project Manager (restoration project; \$14,719)

II. TYPE OF REVIEW REQUIRED

The original project was reviewed under the applicable statutory requirements of Section 41-7-191, subparagraph (1) (j), Mississippi Code of 1972, as amended.

The State Health Officer reviews all projects for amendment in accordance with duly adopted rules, procedures, plans, criteria and standard 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 20 days of publication of this staff analysis. The opportunity to request a hearing expires on December 6, 2010.

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

A. State Health Plan

The original project was in substantial compliance with the 2003 *State Health Plan* in effect at the time the original application was submitted. This amendment project continues to be in substantial compliance with the *State Health Plan*.

B. General Review Criteria

The original project was in substantial compliance with the *Certificate of Need Review Manual, 2000 revision*, in effect at the time of submission. This application continues to be in compliance with applicable general review criteria and standards contained in the *Manual*.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

	<u>Approved Capital Expenditure</u>	<u>Revised Capital Expenditure</u>	<u>Increase (Decrease)</u>
New Construction	\$482,886	\$1,650,000	\$1,167,114
Renovation	5,625,991	22,317,042	16,691,051
Capital Improvements	0	0	0
Land	0	0	0
Site Work	225,450	472,901	247,451
Fixed Equipment	884,713	1,927,272	1,042,559
Non-Fixed Equipment	342,177	2,594,343	2,252,166
Architectural/Engineering Fees	250,000	1,730,000	1,480,000
Contingency Reserve	916,331	841,433	(74,898)
Capitalized Interest	0	0	0
Miscellaneous	0	0	0
Total	<u>\$8,727,548</u>	<u>\$31,532,991</u>	<u>\$22,805,443</u>

As previously mentioned, the capital expenditure approved in the original CON was \$8,727,548 and the additional costs for this amendment proposal are \$22,805,443 resulting in a revised capital expenditure of approximately \$31,532,991.

B. Method of Financing

According to the applicant, this amendment project will be funded by FEMA. This amendment application contains documentation of the schedule of expenditures of federal awards and notes to schedule expenditures of federal awards concerning funding the project.

C. Effect on Operating Cost

Three-Year projected Operating Statement
Hancock Medical Center
HG-A-0810-030

	Year 1	Year 2	Year 3
Revenue			
Patient Service Revenue	\$106,824,000	\$108,284,000	\$115,520,000
Deductions	68,671,000	66,660,000	70,534,000
Total Operating Revenue	\$38,022,000	\$41,624,000	\$44,986,000
Expenses			
Salaries	\$18,383,000	18,635,000	\$19,888,000
Benefits	5,883,000	5,963,000	6,364,000
Fees-Physician	2,442,000	2,476,000	2,642,000
Fees-Other	3,093,000	3,134,000	3,346,000
Supplies	4,400,000	4,460,000	4,760,000
Utilities	835,000	846,000	903,000
Repairs/Maint.	906,000	918,000	980,000
Lease/Rental	675,000	675,000	675,000
Insurance	603,000	621,000	640,000
Taxes – Non-Income	545,000	552,000	589,000
Other Expense	346,000	351,000	374,000
Depreciation/Amortization	756,380	638,481	1,665,970
Interest Expense	45,000	0	0
Total Operating Expense	\$38,912,380	\$39,269,481	\$42,826,970
Net Operating Income (Loss)	(\$890,380)	\$2,353,519	\$ 2,159,030
Assumptions			
Patient Days	6,895	6,431	6,537
Outpatient Visits	29,930	31,600	33,300
Emergency Visits	16,727	15,389	16,374
Adjusted Patient Days	20,365	20,043	20,767

D. Cost to Medicare/Medicaid

The applicant asserts that there will be no effect on any payers since all payers are paid based on a prospective payment system or as a percentage of charges, and the hospital is not projecting any increase of charges due this amendment project.

V. RECOMMENDATION OF OTHER AFFECTED AGENCIES

The Division of Medicaid estimates that the increased annual cost to Medicaid for the proposed project will be \$1,549,958 in inpatient services, and that outpatient services will be paid as outlined in the *Medicaid State Health Plan*. The Division of Medicaid opposes this project.

VI. CONCLUSIONS AND RECOMMENDATION

This project continues to be in substantial compliance with the overall objectives of the *State Health Plan; Certificate of Need Review Manual*, 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 Hancock Medical Center for an amendment to CON #R-0620 (renovation/expansion of outpatient & emergency services).

**Attachment 1
Hancock Medical Center
HG-A-0810-030
Computation of New Construction and Renovation Cost
(Original plus Additional Square Feet)**

<u>Cost Component</u>	<u>Total</u>	<u>New Construction</u>	<u>Renovation</u>
New Construction	\$1,650,000	\$1,650,000	
Renovation	22,317,042		\$22,317,042
Fixed Equipment	1,927,272	1,927,272	
Non-Fixed Equipment	2,594,343	0	0
Land	0	0	0
Site Preparation	472,901	472,901	0
Fees (Architectural, Consultant, etc.)	1,730,000	214,174	1,515,653
Contingency Reserve	841,433	104,169	737,179
Capitalized Interest	0	0	0
Total Revised Capital Expenditure	\$31,532,991	\$4,368,516	\$24,569,874
Square Footage	109,133	13,511	95,622
Allocation Percent		12.38%	87.61%
Cost Less Land, Non-Fixed Eqt. & Capital Improvement	\$28,938,648	\$4,368,516	\$24,469,874
Cost per Square Foot	\$265.16	\$323.33	\$256.94

The *RSMMeans Building Construction Cost Data, 2010 Edition* states that the cost per square foot ranges from \$182 - \$310 for new construction.

Source: Mississippi Certificate of Need Review Manual, Revised May 1, 2010