

**MISSISSIPPI STATE DEPARTMENT OF HEALTH  
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT  
MAY 2014**

**CON REVIEW: HG-MOB-1113-014  
SINGING RIVER HEALTH SYSTEM D/B/A OCEAN SPRINGS HOSPITAL  
COST OVERRUN TO CON NUMBER: HG-MOB-0310-012; R-0814  
CONSTRUCTION OF A MEDICAL OFFICE BUILDING  
ORIGINAL CAPITAL EXPENDITURE: \$6,192,711  
ADDITIONAL CAPITAL EXPENDITURE: \$711,970  
TOTAL CAPITAL EXPENDITURE: \$6,904,681  
LOCATION: GAUTIER, JACKSON COUNTY, MISSISSIPPI**

**STAFF ANALYSIS**

**I. PROJECT SUMMARY**

**A. Applicant Information**

Singing River Hospital System is composed of Singing River Hospital (404 licensed beds) in Pascagoula, Mississippi, and Ocean Springs Hospital (136 licensed beds) in Ocean Springs, Mississippi. Both hospitals are not-for-profit institutions, publicly owned and operated by the citizens of Jackson County, Mississippi, and are governed by a nine-member Board of Trustees appointed by the Jackson County Board of Supervisors. Singing River Hospital System d/b/a Ocean Springs Hospital is accredited by the Joint Commission on Accreditation of Health care Organizations (JCAHO).

**Ocean Springs Hospital  
Utilization Data**

<b>Fiscal Year</b>	<b>Occupancy Rate (%)</b>	<b>ALOS (Days)</b>	<b>Medicaid Utilization Rate (%)</b>
2010	72.50	4.28	56.12
2011	70.63	4.22	61.48
2012	70.48	4.32	56.51

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

**B. Project Background**

Singing River Hospital System (SRHS) d/b/a Ocean Springs Hospital (Ocean Springs Hospital) was granted Certificate of Need (CON) No. R-0814 for the construction of a medical office building with an effective date of June 24, 2010 and an expiration date of June 24, 2011. Ocean Springs Hospital was approved for an extension/renewal of an expired CON on January 22, 2014 for CON No. R-0814. The extension period will terminate on June 24, 2014.

The scope of the original proposed project involved new construction of a 30,200 square-foot, two-floor Medical Office Building (MOB) on an open site presently owned by Singing River Health Systems. The applicant states that the new MOB will be connected to an existing imaging center by a covered sidewalk. The project involved both site demolition and new construction. The MOB will allow the hospital to bring its rehabilitation services together which was currently dispersed in various locations, prior to the newly constructed MOB. According to the applicant, the MOB will be inhabited by neurology, neuro-surgery, pain management specialists, and rehabilitation services with accompanying admissions personnel. The rehabilitation services will consume approximately 11,000 square feet of space with 19,200 square feet dedicated to physician specialties. The applicant confirmed that all these services will be provided by hospital system staff currently employed. No new service is proposed in this project.

Based on a review of the progress report submitted by Ocean Springs Hospital for CON No. R-0814 on November 22, 2013 for a Six Month Extension Request (SME), the applicant stated that the proposed MOB construction was 100% complete, fully staffed and occupied. The applicant further states that patients were first received for services in Ocean Springs Hospital's MOB in January 2013. Ocean Springs Hospital was approved for an extension/renewal of an expired CON on January 22, 2014 for CON No. R-0814. The SME extension period will terminate on June 24, 2014.

The applicant filed an application for Cost Overrun with the Department on November 22, 2013, to request approval of the additional expenditures as it relates to CON No. R-0814. However, staff could not conduct a preliminary technical review of the referenced application due to additional processing information needed. The applicant submitted the additional information on February 25, 2014 and the proposed application was reviewed by staff and entered into the March 2014, review period.

**C. Project Description**

Ocean Springs Hospital now requests Certificate of Need authority for a cost overrun to its CON No. R-0814. Ocean Springs Hospital asserts that the proposed cost overrun was inevitable to complete the MOB. According to the applicant, the proposed cost overrun is due to the increase in construction cost as it relates to the following:

- The applicant states that increased costs and fees associated with the proposed project relate to increases in construction materials and equipment, once the work was underway and already in process.
- The applicant asserts that "The Notice to Proceed" construction was issued in January 2011, but logistics and weather caused delays for the proposed MOB construction project, involving site preparation, storm drainage, sewer and water line installations, concrete slabs, steel building framing, exterior roofing, windows and brick work, landscaping and parking.

- The applicant affirmed that various change orders relating to the construction, nurse call system, security support, plumbing lines, electrical and power lines, flooring, and signage caused completion dates to be delayed. Thus, costs increased.
- The neurosurgeons who ultimately would render services and occupy the MOB space, made additional requests and standards for the new construction based on their requirements.
- The applicant further suggests that delays occurred as a result of the phasing process regarding the construction project. This process necessarily increase costs and are difficult for planning purposes.

According to the applicant, the capital expenditure approved in the original CON is \$6,192,711, and the additional amount for this cost overrun proposal is \$711,970, resulting in a revised capital expenditure of \$6,904,681 for the project. The applicant states that the capital expenditure made to date is \$6,904,681 and the proposed project is 100% complete.

The proposed cost overrun application contained a copy of the revised change order form prepared by Hardy and Associates/Architect, PLLC, attesting to the revised cost estimate. Audited financial statements were provided to present the financial status of SRHS regarding the proposed cost overrun project. The applicant also submitted a revised projected operating statement. The applicant affirms that the additional capital expenditure in the amount of \$711,970 for the proposed project was financed by from cash reserves.

Staff contends that this cost overrun does not change the scope of the original project.

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

## **II. TYPE OF REVIEW REQUIRED**

The original project was reviewed in accordance with Section 41-7-191, subparagraph (1) (j) of the Mississippi Code of the 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 amendments and cost overrun in accordance with duly adopted procedures and standards of the Mississippi State Department of Health.

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 on May 29, 2014.

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

**A. State Health Plan (SHP)**

The original application was in substantial compliance with the *FY 2010 Mississippi State Health Plan*, in effect at the time the original application was submitted. The amendment/cost overrun project continues to be in compliance with the *FY 2014 Mississippi State Health Plan*.

**B. General Review (GR) Criteria**

The original project was in substantial compliance with the Certificate of Need Review Manual in effect, FY 2009 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 *Certificate of Need Review Manual, September 1, 2011*.

**IV. FINANCIAL FEASIBILITY**

**A. Capital Expenditure Summary**

	Original Approved Amount	Revised Amount	Increase/ (Decrease)
1. New Construction Cost	\$ 5,000,000	\$ 5,694,577	\$ 694,577
2. Construction/Renovation	\$ 0	\$ 0	\$ 0
3. Land	\$ 0	\$ 0	\$ 0
4. Site Work	\$ 500,000	\$ 0	\$ (500,000)
5. Fixed Equipment	\$ 0	\$ 0	\$ 0
6. Non-Fixed Equipment	\$ 0	\$ 220,277	\$ 220,277
7. Contingency	\$ 350,000	\$ 0	\$ (350,000)
8. Fees (Architectural, Consultant, etc)	\$ 342,711	\$ 352,550	\$ 9,839
9. Capitalized Interest	\$ 0	\$ 637,277	\$ 637,277
10. Capital Improvement	\$ 0	\$ 0	\$ 0
<b>Total Capital Expenditure</b>	<b><u>\$6,192,711</u></b>	<b><u>\$6,904,681</u></b>	<b><u>\$711,970</u></b>

As previously mentioned, the capital expenditure approved in the original CON is \$6,192,711 (construction of a MOB). The applicant asserts that the additional cost for the cost overrun proposal is \$711,970, resulting in a revised capital expenditure of \$6,904,681 for the project. The applicant asserts that the proposed cost overrun is due to the increase in construction cost (See Section 1; Project Description). The applicant states that the capital expenditure made to date is \$6,904,681 and the proposed project is 100% complete.

The proposed cost overrun does not change the scope of the original project.

**B. Method of Financing**

The applicant affirms that the additional capital expenditure in the amount of \$711,970 for the proposed project was financed by Ocean Springs Hospital cash reserves.

**C. Effect on Operating Cost**

Ocean Springs Hospital asserts that the only effect on operating cost will be an increase of depreciation cost from \$154,818 (original) to \$172,617, an increase of \$17,799 as a result of the proposed cost overrun.

**D. Cost to Medicaid/Medicare**

According to the applicant, the proposed cost overrun project is for the construction of an MOB and will not have a material impact on Medicaid or Medicare.

**V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES**

The Division of Medicaid was provided a copy of this application for comment. The Division of Medicaid states that as of September 1, 2012, the Division changed the methodology by which they reimburse outpatient services so that the cost incurred subsequent to that date will no longer affect outpatient payments.

The Division of Medicaid further states that effective October 1, 2012 the Division changed the methodology by which they reimburse inpatient services so that the cost incurred subsequent to that date will only affect outlier payments. The Division affirms that the estimated increase in cost outlier payments resulting from the proposed CON cannot be determined at this time. Therefore, the Division of Medicaid opposes the transaction of the proposed project.

**VI. CONCLUSION AND RECOMMENDATION**

The original application was in substantial compliance with the *FY 2010 Mississippi State Health Plan*, in effect at the time the original application was submitted; the *Mississippi Certificate of Need Review Manual, revised 2009*, and all adopted rules, procedures and plans of the Mississippi State Department of Health. The proposed amendment/cost overrun project continues to be in compliance with all applicable rules, procedures and plans in the *FY 2014 Mississippi State Health Plan*.

The Division of Health Planning and Resource Development recommends approval of this application submitted by Ocean Springs Hospital for the cost overrun to its CON No. R-0814 (Construction of a Medical Office Building).