

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
MAY 2013**

**CON REVIEW: HG-A-0313-003
FORREST COUNTY GENERAL HOSPITAL
D/B/A FORREST GENERAL HOSPITAL
CON AMENDMENT & COST OVERRUN FOR:
CON REVIEW: HG-COB-1109-032; R-0808
(PINE GROVE BEHAVIORAL HEALTH BED CONVERSION)
ORIGINAL CAPITAL EXPENDITURE: \$1,865,047
ADDITIONAL CAPITAL EXPENDITURE: \$321,870
REVISED CAPITAL EXPENDITURE: \$2,186,917
LOCATION: HATTIESBURG, FORREST COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Forrest County General Hospital, d/b/a Forrest General Hospital (Forrest General), is a 512-bed short term, general acute care, public hospital located in Hattiesburg, Forrest County, Mississippi. The licensed bed complement of the hospital consists of 400 short-term, general acute care beds, 24 rehabilitation beds, 40 adult psychiatric beds, 16 adolescent psychiatric beds, and 32 adult chemical dependency (CDU) beds. Forrest General Hospital is governed by a seven-member Board of Trustees.

Pine Grove Behavioral Health is an extension of Forrest General Hospital which houses the 88 mental health (psychiatric and CDU) beds. Pine Grove Behavioral Health provides services ranging from outpatient to inpatient and residential treatment for adults, children, and adolescents.

B. Project Background

Forrest General was granted Certificate of Need ("CON") No. R-0808, for the conversion of 24 adult chemical dependency beds to adult psychiatric beds at Pine Grove Behavioral Health Center. The effective date of the CON was April 8, 2010, with an expiration date of April 8, 2011. The project currently has an extended expiration date of October 8, 2013.

The CON authorized Forrest General to demolish and renovate approximately 9,542 gross square feet of space at the Pine Grove Recovery Center which houses the Alcohol and Chemical Dependency Unit. The project encompassed renovation of all areas of the existing department as well as new construction of a 400 square foot addition to house the new HVAC unit. The demolition and renovation for the project included architectural, mechanical, plumbing and electrical components to be completed in various phases of work.

The total approved capital expenditure for the project was \$1,865,047 and the applicant has expended a total of \$2,186,917, a cost overrun of approximately 17%.

B. Project Description

Forrest General requests CON authority for an Amendment/Cost Overrun to CON No. R-0808. The original project, as approved by the Department, involved the demolition and renovation necessary to convert adult chemical dependency beds to adult psychiatric beds at Pine Grove Behavioral Health Center. According to the applicant, the most significant of the additional expenses associated with this project relate to increased construction costs and unforeseen renovation and equipment expenditures, once the work was underway and in process. In addition, the following issues contributed to the cost overrun:

- Unanticipated issues relating to water intrusion and mold damage were discovered during the demolition and renovation of the existing space, which was corrected during that phase of the project.
- Increased square footage of 4,578 square feet for administrative space.
- Simple logistics and phasing of the project required a longer period for the demolition/renovation than originally anticipated; thus increased costs for the renovation period.
- Requirements for Nurse Call Nest System to Patient Beds and Rooms.
- Installation of Public Address System.
- Unanticipated equipment items required to be purchased in lieu of using current equipment and fixtures.
- Other construction standards required for adult psychiatric unit not already in place in existing unit.

The applicant asserts that the lowest bid was accepted for the project, and the renovation required for the project is now complete.

II. TYPE OF REVIEW REQUIRED

The Mississippi State Department of Health reviewed the original project, for the conversion of CDU beds to adult psychiatric beds, in accordance with Section 41-7-191 (1)(c), 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 and 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 20 days of publication of this staff analysis. The opportunity to request a hearing expires on June 5, 2013.

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

A. State Health Plan (SHP)

The *FY 2010 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 2010 MSHP*. The amendment project continues to be in substantial compliance with the *FY 2010 MSHP*.

B. General Review (GR) Criteria

The *Certificate of Need Review Manual, 2009 Revision (CON Review Manual, 2009)* 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, 2009* and the CON amendment application continues to be in compliance with applicable General Review Criteria and Standards contained in the *CON Review Manual, 2009*.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

	Original Approved Amount	Revised Amount	Increase/ (Decrease)
1. New Construction Cost	\$0	\$ 995,600	\$ 995,600
2. Construction/Renovation	\$1,621,780	924,523	(697,257)
3. Land	0	0	0
4. Site Work	0	0	0
5. Fixed Equipment	0	21,034	21,034
6. Non-Fixed Equipment	0	44,659	44,659
7. Contingency	113,525	0	(113,525)
8. Fees (Architectural, Consultant, etc)	129,742	173,136	43,394
9. Capitalized Interest	0	27,965	27,965
10. Capital Improvement	0	0	0
11. Other (HUD and Banking Fees)	0	0	0
12. Legal and Accounting Fees	0	0	0
Total Capital Expenditure	\$1,865,047	\$2,186,917	\$321,870

The above table represents approximately 17% increase in capital expenditure by Forrest General Hospital. This amendment/cost overrun project proposes 4,978 square feet of new construction (an increase of 4,578 square feet over the

400 sq. ft. stated in the original project) for non-clinical administrative space, according to the applicant, but does not alter the scope of the project. The applicant states that the project is now 100% complete.

The total square footage for the proposed project is 4,978 square feet of new construction at a cost of \$215.46 per square foot and 9,389 square feet of renovation at a cost of \$113.93 per square foot (see Attachment 2). Hospital projects listed in the *RSMMeans Building Construction Cost Data, 2013 Edition*, had a median cost of \$246 per square foot; therefore this project is comparable to like projects. The *RSMMeans Building Construction Cost Data* does not compare projects of renovation.

B. Method of Financing

According to the applicant, the project is being funded by operating revenues of the Hospital. The financial statements contained in the application indicate sufficient revenues to fund the project.

C. Effect on Operating Cost

The revised cost for the first full year of operation after completion of the proposed project is shown in Attachment 1 of this staff analysis.

D. Cost to Medicaid/Medicare

Forrest General asserts that this cost overrun will not have any impact on Medicaid or Medicare patients, or patients of other payors. The applicant asserts that the capital expenditure increase relating to the cost overrun is a modest amount and will result in only a nominal increase in annual depreciation expense. This increase in capital expenditure will not have any impact on Hospital charges or payments for adult psychiatric services. The applicant states that patients of all payor sources will have improved access to care with the availability of additional psychiatric beds. The financial impact to those payor sources will be neutral as the conversion of the beds will not result in an increased cost per bed.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided an opportunity to review and comment on this project. The Division states that effective September 1, 2012, it 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. Based on the Division of Medicaid's analysis, the estimated increase in cost outlier payments resulting from this project cannot be determined at this time. The Division of Medicaid opposes this project.

VI. CONCLUSION AND RECOMMENDATION

This project continues to be in substantial compliance with the overall objectives of the *FY 2010 Mississippi State Health Plan; Certificate of Need Review Manual, Revision 2009*; 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 Forrest County General Hospital for amendment/cost overrun to CON No. R-0808. This amendment/cost overrun will allow Forrest General to add 4,578 square feet of administrative space and increase capital expenditure by \$321,870 for the conversion of 24 chemical dependency beds to adult psychiatric beds.

Attachment I

Forrest County General Hospital Amendment to CON # R-0808

Revised Projected Operating Statement (First Full Year of Operation after Completion of the Project)

	<u>AMOUNT</u>
Revenue	
Inpatient Care Revenue	\$3,225,254
Outpatient Revenue	1,599,990
Gross Patient Care Revenue	\$4,825,244
Charity Care	\$ 892,735
Deductions from Revenue	<u>1,039,685</u>
Net Patient Revenue	\$2,892,824
Other Operating Revenue	<u>2,264</u>
Total Operating Revenue	\$2,895,088
Operating Expense	
Salaries	\$ 675,455
Benefits	125,611
Supplies	41,747
Services	12,000
Lease	
Depreciation	<u>11,742</u>
Interest	
Other	<u>333</u>
Total Operating Expense	\$ 866,888
Net Operating Income (Loss)	\$2,028,200
Inpatient Days	2,005
Charges per Inpatient Day	\$1,609
Cost per Inpatient Day	\$432
Outpatient Days	2,005
Charge per outpatient day	\$798
Cost per outpatient day	\$432

Attachment 2
Forrest General Hospital
Pine Grove Behavioral Health Bed Conversion
Computation of Construction and Renovation Cost

Cost Component	Total	New Construction	Renovation
New Construction Cost	\$995,600	\$995,600	
Renovation Cost	\$924,523		\$924,523
Total Fixed Equipment Cost	\$21,034	\$7,288	\$13,746
Total Non-Fixed Equipment Cost	\$44,659		
Land Cost	\$0	\$0	
Site Preparation Cost	\$0	\$0	
<i>Fees (Architectural, Consultant, etc.)</i>	\$173,136	\$59,990	\$113,146
<i>Contingency Reserve</i>	\$0	\$0	\$0
<i>Capitalized Interest</i>	\$27,965	\$9,690	\$18,275
<i>Other</i>	\$0	\$0	
Total Proposed Capital Expenditure	\$2,186,917	\$1,072,567	\$1,069,691
Square Footage	14,367	4,978	9,389
<i>Allocation Percent</i>		34.65%	65.35%
Costs Less Land, Non-Fixed Eqt., Other	\$2,142,258	\$1,072,567	\$1,069,691
Cost Per Square Foot	\$149.11	\$215.46	\$113.93
Cost per Bed (n=24)	\$89,261		