

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

**CON REVIEW: HG-MOB-0614-009
NESHOPA COUNTY GENERAL HOSPITAL
CONSTRUCTION OF MEDICAL OFFICE BUILDING
LOCATION: PHILADELPHIA, NESHOPA COUNTY, MISSISSIPPI
CAPITAL EXPENDITURE: \$2,693,000**

(AMENDED) STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Neshoba County General Hospital (Neshoba General) is a short-term, general acute care, county owned hospital located in Philadelphia, Neshoba County, Mississippi. The facility is governed by a five-member Board of Trustees appointed by the Neshoba County Board of Supervisors. The facility is certified to participate in the Medicare and Medicaid program.

Neshoba General consists of 82 licensed beds, operates a 10-bed swing-bed program, a 10-bed geriatric-psychiatric program, and owns and operates a 148-bed long term care facility, Neshoba County Nursing Home.

B. Project Description

Neshoba General requests Certificate of Need (CON) authority to construct a medical office building (MOB) on the campus of the hospital. The proposed MOB will be 22,000 square feet at an estimated cost of \$2,693,000. The MOB is proposed to be occupied by 7 primary care providers, 2 nurse practitioners, 4 visiting specialty physicians, and lab and x-ray services.

The applicant states that the MOB is necessary to accommodate the relocation of existing primary care providers that presently occupy multiple leased facilities in the area. The proposed project will result in a consolidation of multiple primary care provider offices and accommodate visiting specialists to serve the special healthcare needs of the citizens of Neshoba County. The resulting consolidation of the healthcare providers will result in convenient access on the hospital campus to all services.

The MOB will be one-story, steel frame, slab-on-grade, with brick and glass exterior. The construction costs include site work including, site preparation, parking, street construction, water and sewer connections, and a covered walk to connect the MOB to the hospital. On May 2, 2014, Neshoba General obtained sight approval for the proposed MOB from Fire Safety and Construction, Division of Health Facilities.

The applicant proposes a total capital expenditure in the amount of \$2,693,000 or \$117.86 per square foot for the project. This includes construction, site preparation including parking construction, non-fixed equipment, and fees. A cost estimate has been presented by E. Bowden Wyatt, Foil Wyatt Architects and Planners, PLLC providing a detailed assessment of the project.

The applicant asserts full compliance with all applicable local and state statutes and regulations affiliated with the construction of this project. Upon CON approval, the project shall commence with an estimated completion in one year from commencement.

II. TYPE OF REVIEW REQUIRED

This project is reviewed in accordance with Section 41-7-191, subparagraph (1) (j) Mississippi Code 1972 Annotated, as amended, and 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 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 **October 7, 2014.**

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 (FY 2014 MSHP)* contains criteria and standards which the applicant is required to meet prior to receiving CON authorization for construction, renovation, and the acquisition of major medical equipment. The applicant is in compliance with all applicable criteria and standards.

SHP Criterion 1 – Need Criterion

The applicant proposes to construct a one-story medical office building as a means to alleviate and consolidate the need for office space inside and outside of the main hospital, and aid in the recruitment and retention of physicians in the area. The MOB will provide greater access for patients to all hospital outpatient and diagnostic services and reduce lease costs to the hospital for off-campus office and clinic space.

SHP Criterion 2 – Bed Service Transfer/Reallocation/Relocation

The criterion is not applicable to the proposed project.

SHP Criterion 3 – Charity/Indigent Care

The applicant asserts the continued provision of charity and indigent care pursuant to its Financial Assistance Policy. In FY 2013, Neshoba General provided \$1,044,384 in charity care allowances and projects that by FY 2017, it will provide \$2,056,023 in charity care.

SHP Criterion 4 – Cost of Proposed Project

- a. **Cost per Square Foot:** The anticipated cost of building construction for 22,000 square feet is \$117.86 per square foot. The applicant asserts the cost is below the median costs of similar projects.

- b. **Equipment Cost:** The applicant states that equipment costs are not expected to exceed \$150,000.

SHP Criterion 5 – Floor Area and Space Requirements

- a. The applicant states the gross square footage of the proposed project compares favorably with state and national norms for similar projects.
- b. The criterion is not applicable to the proposed project.
- c. The criterion is not applicable to the proposed project.

SHP Criterion 6 – Cost of Proposed Renovation or Expansion Project

The criterion is not applicable to the proposed project.

SHP Criterion 7 – Need for Specific Service

The criterion is not applicable to the proposed project.

C. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, September 1, 2011 Revision*, addresses general criteria by which all CON applications are reviewed. This application is in substantial compliance with general review criteria.

GR Criterion 1 – State Health Plan

The proposed project is consistent with the *FY 2014 State Health Plan*.

GR Criterion 2 – Long Range Plan

The applicant states the proposed project is in accordance with its long-range plans to provide quality, efficient healthcare to all residents of Neshoba General's service area. The applicant states that with the growth or expansion of hospital based physicians, the hospital has had an increased need for additional medical office space. This need is currently met by leasing such space in the surrounding community to the hospital. The use of leased space off the campus of the hospital presents several disadvantages to the applicant, namely access and consolidation of all hospital based services and costs of the leased space are projected to exceed the proposed project.

GR Criterion 3 – Availability of Alternatives

The applicant describes the advantages of the current use of leased space as availability and no need for capital investment by the hospital. The disadvantages are listed as disbursement of physicians to off-campus locations and leasing costs that are higher than the proposed project. The applicant has chosen to proceed with the proposed project to add a MOB to its campus to eliminate the disadvantages discussed above.

The applicant was unable to identify any building on its campus to be converted to use in place of the proposed MOB. The MOB is anticipated to be of benefit to the patients and health care system because it will offer the ability to have access to all hospital services and continuum of care for the patients. The MOB project was identified as the most effective and least costly alternative and is

alleged to provide a reduction in operating costs of the hospital because the allowance of depreciation of the building.

GR Criterion 4 – Economic Viability

- a. **Proposed Charge:** The applicant states it will provide substantially the same services in the proposed MOB that it currently provides in the off-campus leased office locations. The proposed charge is not anticipated to change as a result of this project.
- b. **Projected Levels of Utilization:** The criterion is not applicable to the proposed project.
- c. **Project's Financial Feasibility Study:** The applicant submitted a letter from the Neshoba General's Chief Financial Officer asserting the proposed project is financially feasible.

d. Deviation from financial forecast

The applicant asserts that there are no significant deviations from the historical financial history related to this project.

e. Project's Expense Coverage

The applicant states that there are no additional projected revenues related to the project.

f. Project's Impact on Health Care Costs

The applicant states it will provide substantially the same services with the MOB project that it currently provides and there is no anticipated impact on the cost of health care.

GR Criterion 5 - Need for the Project

The applicant states there is not a proposal of any new services; however, the intent of the MOB project is to continue to serve Neshoba General's existing patient population. The proposed project will better serve the patients, including, low income persons, all racial and ethnic minorities, handicapped persons, underserved persons, and the elderly. This is anticipated because access will be improved due the relocation of services to on-campus site where all hospital services are available including ancillary and diagnostic services.

The applicant states no new services or beds are requested for the proposed project. The project is to relocate services onto the campus of the hospital.

The applicant has included several letters of support from the public and affiliates in agreement with the project.

GR Criterion 6 – Accessibility

Neshoba General currently provides charity or indigent care to the residents in its primary and secondary service areas. Neshoba General, being a county owned hospital, is committed to serving charity and indigent patients. Neshoba General admits patients without regard to age, religion, creed, sex, race, or ability to pay.

The MOB will be to be located on the hospital campus and accessible to all patients that visit the hospital campus.

The applicant states the tentative hours of operation for the proposed project will be 8 hours per day, 5 days per week, excluding holidays.

GR Criterion 7 – Information Requirement

The applicant states that Neshoba General will record and maintain the information requirements set forth by this criterion, and make the data available to the Mississippi State Department of Health within 15 business days of request.

GR Criterion 8 – Relationship to Existing Health Care System

According to the applicant, there are eight additional medical office practices in the area, but since the applicant already provides the services in the area, no impact is anticipated to other providers.

The applicant states the proposed project will not extend any new services nor is it anticipated to affect any existing health care providers in the area. Since Neshoba General is the only hospital in Neshoba County, there are no existing comparable hospital based services in Neshoba County.

GR Criterion 9 – Availability of Resources

Because this is the relocation of existing services, the applicant states no new personnel will be necessary for the proposed project.

GR Criterion 10 – Relationship to Ancillary or Support Services

The applicant asserts that it provides all the necessary ancillary or support services and no additional such services are anticipated to be needed for the MOB project. The applicant does not expect a change in charges associated with the project.

GR Criterion 11 – Health Professional Training Programs

The applicant is a consortium member of EC-HealthNet, which operates a regional medical resident program. Neshoba General's physicians serve as faculty preceptors.

GR Criterion 12 – Access by Health Professional Schools

The applicant is a consortium member of EC-HealthNet, which operates a regional medical resident program. Neshoba General's physicians serve as faculty preceptors.

GR Criterion 13 – Access by Residents Outside the Service Area

This criterion is not applicable to this application.

GR Criterion 14 – Construction Projects

- a. **Cost Estimate:** A cost estimate is included by E. Bowden Wyatt, Foil Wyatt Architects and Planners, PLLC providing a detailed assessment of the project.

- b. **Schematic Drawing:** The application contains a schematic drawing of the proposed construction project.
- c. **Space Allocations:** The applicant states that the project will comply with state and local building codes, zoning ordinances, and all appropriate regulatory authorities. The applicant provided written assurance that the facility will comply with state statutes and regulations for the protection of the environment.
- d. **New Construction Projects:** The proposed project involves the construction of a medical office building.
- e. **Cost per square foot:** The anticipated cost of building construction for 22,000 square feet is \$117.86 per square foot. According to the *RS Means Building Construction Cost Data, 2013*, the low end cost for similar MOB projects is reported at \$118.00 per square foot and the median cost is \$149.00 per square foot. The applicant asserts the cost is below the median costs of similar projects.

GR Criterion 16 – Quality of Care

Neshoba General states it is in compliance with the *Minimum Standards for the Operation of Mississippi Hospitals* and the Medicare Conditions of Participation, as determined by the surveys conducted by the Mississippi State Department of Health, Division of Health Facilities Licensure and Certification. The proposed project will continue to address the needs of community by providing accessibility and convenience through the construction of the new MOB on the campus of the hospital.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

The total estimated capital expenditure is allocated as follows:

	Item	Cost	Percentage of Total
a.	Construction Cost - New	\$ 1,980,000	73.5%
b.	Construction Cost – Renovation	\$ 0	0.0%
c.	Capital Improvements	\$ 0	0.0%
d.	Total Fixed Equipment Cost	\$ 0	0.0%
e.	Total Non-Fixed Equipment Cost	\$ 100,000	3.7%
f.	Land Cost	\$ 0	0.0%
g.	Site Preparation Cost	\$ 400,000	14.8%
h.	Fees (architectural, consulting, etc.)	\$ 213,000	8.0%
i.	Contingency Reserve	\$ 0	0.0%
j.	Capitalized Interest	\$ 0	0.0%
k.	Other (Personal Financing)	\$ 0	0.0%
	Total Proposed Capital Expenditure	\$ 2,693,000	100%

B. Method of Financing

The applicant states the proposed project will be financed by a 10 year, \$2 Million zero interest loan with no payment being due the first year. The loan is

possible through Central Electric Power Association's participation in the U.S. Department of Rural Development's Rural Economic Development Loan (REDLG) program on behalf of the applicant, Neshoba County General Hospital. The remaining costs of \$693,000 are to be paid by the applicant using its cash reserves.

C. Effect on Operating Cost

The Three-Year Projected Operating Statement is presented in Attachment 1 of this staff analysis.

D. Cost to Medicaid/Medicare

According to the applicant, the proposed project is for the construction of a MOB and will not have a material impact on Medicaid. Therefore, the project will not have any effect on third party payors.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid (Division) was provided a copy of this application for review and comment. The Division states that effective September 1, 2012, it changed the methodology by which the Division reimburses outpatient services so that the costs incurred subsequent to that date, will no longer affect outpatient payments. Effective October 1, 2012, the Division changed its methodology by which the Division reimburses inpatient services so that the cost incurred, subsequent to that date will only affect cost outlier payment. The Division is unable to estimate the cost outlier payments resulting from the CON application at this time. The Division **opposes** this application.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the criteria and standards for construction, renovation, and expansion projects as contained in the *2014 Mississippi State Health Plan*; Chapter 8 of the *Mississippi Certificate of Need Review Manual, September 1, 2011, Revised*; and all adopted rules, procedures, and plans of the Mississippi State Department of Health.

The Division of Health Planning and Resource Development recommends approval of this application submitted by Neshoba County General Hospital for the construction of a medical office building.

Attachment I

Neshoba County General Hospital Construction of a Medical Office Building (with Project) Three-Year Operating Statement

	Proposed Year 1	Proposed Year 2	Proposed Year 3
Revenue			
Inpatient Care Revenue	\$ 35,769,011	\$ 37,190,064	\$ 37,479,142
Outpatient Care Revenue	\$ 64,832,968	\$ 69,608,338	\$ 70,106,289
Gross Patient Care Revenue	\$ 100,601,979	\$ 106,798,402	\$ 107,585,431
Charity Care	\$ 1,758,436	\$ 1,899,786	\$ 1,911,074
Deductions from Revenue	\$ 56,856,093	\$ 61,426,418	\$ 61,791,393
Net Patient Care Revenue	\$ 41,987,450	\$ 43,472,198	\$ 43,882,964
Other Operating Revenue			
Total Operating Revenue	\$ 41,987,450	\$ 43,472,198	\$ 43,882,964
Operating Expense			
Salaries	\$ 20,472,000	\$ 20,952,000	\$ 20,952,000
Benefits	\$ 3,644,016	\$ 3,729,456	\$ 3,729,456
Supplies	\$ 4,929,498	\$ 5,233,122	\$ 5,271,686
Services	\$ 5,496,988	\$ 5,634,413	\$ 5,775,273
Lease	\$ 1,834,186	\$ 1,858,690	\$ 1,883,808
Depreciation	\$ 1,959,000	\$ 1,959,000	\$ 1,959,000
Interest	\$ 290,000	\$ 290,000	\$ 290,000
Other	\$ 2,807,782	\$ 2,886,927	\$ 2,967,425
Total Operating Expense	\$ 41,433,470	\$ 42,543,608	\$ 42,828,648
Net Operating Income (Loss)	\$553,980	\$928,590	\$1,054,316
	Proposed Year 1	Proposed Year 2	Proposed Year 3
Inpatient days	\$ 66,134	\$ 66,634	\$ 66,947
Outpatient visits	\$ 101,010	\$ 102,460	\$ 103,310
Procedures	\$ 1,300	\$ 1,400	\$ 1,500
Charge per outpatient day	\$ 642	\$ 679	\$ 679
Charge per inpatient day	\$ 541	\$ 558	\$ 560
Charge per procedure	\$ 77,386	\$ 76,285	\$ 71,724
Cost per inpatient day	\$ 627	\$ 638	\$ 640
Cost per outpatient day	\$ 410	\$ 415	\$ 415
Cost per procedure	\$ 31,872	\$ 30,388	\$ 28,552