

**Division of Health Planning and
Resource Development
November, 2005**

**CON Review: HG-MOB-0905-034
Rankin Medical Center- Brandon
Construction of Medical Office Building
Capital Expenditure: \$5,365,580
Location: Brandon, Rankin County, Mississippi**

Staff Analysis

I. PROJECT SUMMARY

A. Applicant Information

Rankin Medical Center is a 134-bed acute care hospital licensed and operated by Brandon Health Management Associates (HMA), Inc. Brandon HMA, Inc. leased the hospital from the Rankin County Board of Supervisors effective January 1, 1996. The application contains a Certificate of Good Standing from the Mississippi Secretary of State.

The facility's occupancy rates, average lengths of stay (ALOS), and Medicaid utilization rates for the past three fiscal years are as follows: (medical/surgical beds only):

Rankin Medical Center Utilization Data			
<u>Year</u>	<u>Occupancy Rate (%)</u>	<u>ALOS (Days)</u>	<u>Medicaid Utilization Rate (%)</u>
2002	43.69	5.67	7.52
2003	42.29	5.42	8.30
2004	43.24	5.26	7.76

Source: The Division of Health Facility Licensure and Certification, MDH

B. Project Description

Rankin Medical Center requests Certificate of Need (CON) authority to construct a medical office building adjacent to the existing hospital. The medical office building construction will include two floors with approximately 30,100 square feet. The applicant intends to lease 24,459 square feet of the facility to local physicians. The remaining 5,641 square feet will be used by the hospital for a wound care center (4,136 square feet) and for a laboratory and X-ray rooms (1,505 square feet). No new institutional health services will be added. The proposed project will be developed by MedCapital Group with the Haskill Company serving as the project contractor.

II. TYPE OF REVIEW REQUESTED

The Mississippi Department of Health reviews applications for a CON by a health care facility for a projects for construction, renovation, expansion, or capital improvement involving a capital expenditure in excess of \$2,000,000 under the applicable statutory requirements of Section, 41-7-191 (j), Mississippi Code of 1972, as amended and duly adopted rules, procedures, plans, criteria, and standards of the Mississippi Department of Health.

In accordance with Section 41-7-197 (2) of the Mississippi Code of 1972 Annotated, as amended, any 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 December 5, 2005.

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

A. State Health Plan (SHP)

The FY 2006 *State Health Plan* contains criteria and standards which an applicant is required to meet before receiving CON authority for construction, renovation, expansion, or capital improvement involving a capital expenditure in excess of \$2,000,000. This application is in substantial compliance with these criteria.

SHP Criterion 1 -- Need

The proposed project is the result of the identification of long-range goals for Rankin Medical Center as included in the long-range plan. The proposed construction of a medical office building will allow Rankin Medical Center to enhance the continuity of care and services provided to its patients.

The proposed project requests approval of a CON to be issued to Rankin Medical Center for the construction of a medical office building. No new institutional health services or additional licensed beds are proposed as a part of this CON application.

SHP Criterion 3 -- Charity/Indigent Care

The applicant states that the hospital will continue to provide a reasonable amount of indigent/charity care.

SHP Criterion 4. -- Reasonable Cost

The construction cost per square foot for this project is \$171.10. **RS Means Building Construction Cost Data, 2005** suggests that the cost for medical offices should range from \$89.00 to \$135.00 per square foot. Other recent medical office building projects cost per square foot approved by the Mississippi Department of Health includes \$173.72 for

River Oaks Hospital, Flowood (HG-CB-1202-077); and \$175.25 for Jeff Anderson Regional Medical Center, Meridian, (HG-RC-0604-027).

The equipment costs as proposed will not exceed by more than 15 percent the median costs for similar projects approved by the Mississippi Department of Health in the recent past, according to the applicant.

SHP Criterion 5 – Gross Square Footage and Architectural Design

The capacity of the medical office building will be 30,100 square feet. The proposed project is consistent with state and national norms, according to the applicant.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual*, revised 2000, addresses general review criteria by which all CON applications are reviewed. The applicable criteria are listed as follows:

GR Criterion 1 – Need

According to the applicant, Rankin Medical Center currently has a total of 243 physicians on its medical staff. During the past five years, a significant number of new physicians have been added to the hospital's medical staff, as demonstrated below:

<u>Year</u>	<u>Number of New Physicians</u>
2001	13
2002	22
2003	31
2004	28
2005 (YTD) (Jan. – Sept)	24

The medical office space on the Rankin Medical Center campus is fully occupied and in need of renovation. A clear need exists for additional modern office space on the campus that will provide physicians with direct access to hospital patients and the related ancillary and support services available at Rankin Medical Center, according to the applicant.

GR Criterion 2 – Long Range Plan

The proposed project is the result of the identification of long-range goals for Rankin Medical Center and the community it serves. The proposed construction of a medical office building will allow Rankin Medical Center to enhance the continuity of care and services provided to its patients.

GR Criterion 3—Available of Alternatives

According to the applicant, the project, as proposed, is the most efficient and cost-effective method of providing for the future delivery of health care services to the patient community served by Rankin Medical Center.

GR Criterion 4 – Economic Viability

Based on the applicant's three-year projections, this project will be economically viable. The projected net income will be \$30,413, \$30,412, and \$41,380 for year one, two, and three, respectively. (See table on Page 7)

The property will lease at \$14.58 per square foot. Local physicians will lease 24,459 square feet for an expected lease income of \$356,498 during the first year operation. Rankin Medical Center will retain 5,641 square feet for use as a wound care center, laboratory, and diagnostic radiological center at a cost of \$82,246 during the first year of operation, according to the applicant.

The application contained a memorandum from MedCapital Group, the project developer for the proposed new medical office building, stating that in performing their financial feasibility study they reviewed the following:

- Financial statements of the parent company;
- Market need for this facility;
- Other options for medical office space on the campus of the hospital; and
- Possibilities and projections for growth in healthcare need of the local market.

Based upon review of these factors, MedCapital Group found that the obligor and guarantor of the rent payments can be reasonably expected to make these payments on a timely basis.

GR Criterion 5 – Need for the Project

The applicant affirms that Rankin Medical Center will be accessible to all residents of the service area, including all low income persons, racial and ethnic minorities, elderly women, handicapped persons or any other underserved groups in the provision of its services.

The applicant anticipates no adverse impact or effect on any existing facilities or services as a result of the proposed medical office building construction. This proposal does not involve new institutional health services or additional licensed beds.

The application contained letters from 16 local physicians supporting the construction of a medical office building on the campus of Rankin Medical Center. No letters of opposition were received.

GR Criterion 6 – Access to the Facility or Service

According to the applicant, Rankin Medical Center does not discriminate against the poor, the handicapped, women, the elderly, or members or racial and ethnic minorities. The facility has no obligations under any federal regulations regarding provision of uncompensated care, community services, or access by minority/handicapped persons. Rankin Medical Center serves Medicare, Medicaid, and medically indigent patients.

GR Criterion 7 – Information Requirement

The applicant states that it will record and maintain the requested information stated in the above criterion and make it available to the Mississippi Department of Health within 15 working days of request.

GR Criterion 8 – Relationship to Existing Health Care System

Because this project involves the construction of a medical office building with no increase in licensed acute care bed capacity or the scope of services offered by Rankin Medical Center, the applicant expects no adverse impact on the existing health care system.

GR Criterion 9 – Availability of Resources

Rankin Medical Center has documented the health, management, and financial resources necessary to implement this project. The applicant affirms the availability of resources (including medical staff, health personnel, management personnel, and funds for capital and operating needs) to pursue this project.

GR Criterion 10 – Relationship to Ancillary or Support Services

Because this project involves the construction of a medical office building, there will be no adverse impact on any ancillary or support services offered.

GR Criterion 14 – Construction Projects

According to the applicant, all spatial allocations related to this project shall conform to state or other applicable standards. The application contained a floor plan and a certified cost estimate of an architect licensed to do business in Mississippi. The construction cost per square foot for this project is \$171.10.

GR Criterion 16 – Quality of Care

Rankin Medical Center is accredited by the Joint Commission on Accreditation of Healthcare Organizations and provides quality care to all of its patients. The facility is in compliance with the Minimum Standards for the Operation of Mississippi Hospitals, according to the Division of Health Facility Licensure and Certification.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

The total capital expenditure of \$5,365,580 is estimated as follows:

		Percent (%)
a.	Construction Cost -- New	\$ 4,022,750 74.98
b.	Construction Cost -- Renovation	0 0
c.	Capital Improvements	0 0
d.	Total Fixed Equipment Cost	0 0
e.	Total Non-Fixed Equipment Cost	215,580 4.02
f.	Land Cost	0 0
g.	Site Preparation Cost	355,000 6.62
h.	Fees (Architectural,, etc.)	420,875 7.85
i.	Contingency Reserve	209,625 3.91
j.	Capitalized Interest	141,750 2.65
k.	Other Cost	<u>0 0</u>
l.	Total Capital Expenditure	<u>\$5,365,580 100.0</u>

The total square footage of new construction is 30,100 square feet. The cost per square foot is \$171.10, which exceeds the ¾ quadrant for medical offices in the 2005 Means Construction Cost Data book. However, the cost is comparable to the cost of other recent medical office building projects approved by the Mississippi Department of Health.

B. Method of Financing

The medical office building construction project will be financed through a commercial loan in the amount of \$4,377,500 and the remainder through hospital equity. All debts associated with this project shall be retired through the use of rental collections or proceeds.

C. Effects on Operating Cost

The application projects the following expense and revenue results from operation for the first three years following completion of the project:

Rankin Medical Center Medical Office Building Three Year Projected Operation Statement			
	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Revenue			
Lease Payments	\$ 438,744	\$ 438,744	\$ 449,713
Expenses:			
Interest	261,188	261,189	261,190
Depreciation	<u>147,143</u>	<u>147,143</u>	<u>147,143</u>
Total Expenses	\$ 408,331	\$ 408,332	\$ 408,333
Excess of Revenues Over Expenses	<u>\$ 30,413</u>	<u>\$ 30,412</u>	<u>\$ 41,380</u>

D. Cost to Medicaid

The completion of the medical office building construction project will not create an expense to Medicaid.

V. RECOMMENDATION OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application. The Division of Medicaid takes no position of 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 *FY 2006 Mississippi State Health Plan*; Chapter 8 of the *Mississippi Certificate of Need Review Manual, Revised 2000*; and all adopted rules, procedures, and plans of the Mississippi Department of Health.

The Division of Health Planning and Resource Development recommends approval of this application submitted on behalf of Rankin Medical Center for the construction of a medical office building.