

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
JANUARY 2015**

**CON REVIEW: HG-CO-1014-014
VICKSBURG HEALTH CARE, LLC,
D/B/A RIVER REGION HEALTH SYSTEM
COST OVERRUN TO CON REVIEW: HG-MOB-0913-12 R-0871
(CONSTRUCTION OF RIVER REGION MEDICAL OFFICE BUILDING)
ORIGINAL CAPITAL EXPENDITURE: \$13,245,099
ADDITIONAL CAPITAL EXPENDITURE: \$3,723,912
REVISED CAPITAL EXPENDITURE: \$16,969,011
LOCATION: VICKSBURG, WARREN COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Vicksburg Healthcare, LLC d/b/a River Region Health System, is comprised of River Region Medical Center, River Region West Campus, The Street Clinic, Family Medicine Clinic and One Medical Plaza. River Region Medical Center is a 372-bed, limited liability, acute care hospital based at 2100 Highway 61 N. in Vicksburg, Warren County, Mississippi. The licensed bed complement consists of 261 general acute care beds, 40 adult psychiatric beds, 28 adult chemical dependency beds, 12 adolescent chemical dependency beds and 31 long-term care beds that are temporarily de-licensed. The facility also holds an outstanding Certificate of Need (CON) for 20 adolescent psychiatric beds.

River Region Health System is owned by Community Health Systems of Franklin, Tennessee and is qualified to do business in the State of Mississippi. The facility is accredited by the Joint Commission and has three directors and five officers.

B. Project Background

River Region Health System was granted CON No. R-0871 to construct, on its hospital campus, a medical office building (the "MOB") financed and owned by a non-affiliated third party, CCI Vicksburg MOB, LLC, a wholly owned subsidiary of The Cornerstone Companies, Inc. ("Cornerstone"). CCI Vicksburg MOB, LLC, an Indiana limited liability company, was created for the sole purpose of owning the MOB. CCI Vicksburg MOB, LLC is registered to do business in the State of Mississippi. River Region owns the real property on which the MOB will be constructed.

The three-story MOB will comprise approximately 66,812 square feet of space. The second and third floors of the MOB will be dedicated to physician office space for River Region-employed physicians whose offices currently are located in other clinic settings. The first floor proposed to house therapy services and a permanent MRI machine. The following outpatient physician services are proposed to be provided in the new MOB: orthopedics, neurology, rheumatology, gastroenterology, pulmonology, pain management, urology,

obstetrics/gynecology, and primary care. The MOB will also have approximately 290 parking spaces.

C. Project Description

River Region requests a cost overrun of the capital expenditure approved for the MOB. The applicant states that based on the soil composition, additional work was needed to prepare the site for construction. In addition, plans to offer MRI services have been withdrawn. Furniture and equipment costs are now finalized for the MOB. River Region indicates that the cost overrun is due to: (1) an increase in expenses related to site work and (2) increases in costs for equipment, furniture, technology, and signage.

The applicant has expended approximately \$4,425,985 and the project is approximately 35% complete. River Region expects to complete the project by May 31, 2015.

II. TYPE OF REVIEW REQUIRED

The Mississippi State Department of Health reviewed the original project in accordance with Section 41-7-173, 41-7-191 (1)(j), and 41-7-193 of the 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 February 4, 2015.

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 (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 overall objects of the *FY 2014 MSHP*. This Amendment/cost overrun project continues to be in substantial compliance with the *FY 2014 MSHP*.

B. General Review (GR) Criteria

The *Certificate of Need Review Manual, 2011 Revision (CON Review Manual, 2011)* 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, 2011* and the CON cost overrun application continues to be in compliance with applicable General Review Criteria and Standards contained in the *CON Review Manual, 2011*.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

	Original Approved Amount	Revised Amount	Increase/ (Decrease)
1. New Construction Cost	\$6,535,001	\$7,139,902	\$604,901
2. Construction/Renovation	0	0	0
3. Land	0	0	0
4. Site Work	\$1,200,461	\$1,200,461	0
5. Fixed Equipment	0	0	0
6. Non-Fixed Equipment	0	\$2,881,134	\$2,881,134
7. Contingency	\$353,000	\$503,000	\$150,000
8. Fees (Architectural, Consultant, etc)	\$876,419	\$920,419	\$44,000
9. Capitalized Interest	\$150,000	\$193,877	\$43,877
10. Capital Improvement	\$4,130,218	\$4,130,218	0
Total Capital Expenditure	\$13,245,099	\$16,969,011	\$3,723,912

The above table represents a 28% increase in capital expenditure by River Region Health System. The applicant states that additional work was necessary to prepare the site for new construction. In addition, costs for equipment, furniture, technology, and signage are now complete and included in the additional costs. The project entails 66,812 square feet of new construction at a cost of approximately \$149 per square foot (See Attachment 2). The *RS Means Building Construction Cost Data* estimates that medical office buildings will cost between \$121 and \$185 per square foot.

B. Method of Financing

The project will be financed by CCI Vicksburg MOB, LLC. River Region will lease the building from CCI Vicksburg MOB, LLC.

C. Effect on Operating Cost

The applicant states that there were no changes in the three-year projected operating statement as the MOB will be leased from the developer. The original three-year operating statement is included as Attachment 1.

D. Cost to Medicaid/Medicare

According to the applicant, the cost overrun will have no impact on Medicare patients, Medicaid patients or other payers.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided an opportunity to review and comment on this project. Effective September 1, 2012, the Division of Medicaid 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.

VI. CONCLUSION AND RECOMMENDATION

This project continues to be in substantial compliance with the overall objectives of the *FY 2014 Mississippi State Health Plan; Certificate of Need Review Manual, Revision 2011*; 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 Vicksburg Healthcare, LLC, d/b/a River Region Health System for a cost overrun to CON No. R-0871. This cost overrun will allow River Region to increase the authorized capital expenditure from \$13,245,099 to \$16,969,011.

Attachment 1

Vicksburg Healthcare, LLC d/b/a River Region Health System Three-Year Operating Statement (with Project)			
	Year 1	Year 2	Year 3
Revenue			
Patient Revenue:			
Inpatient	\$ 484,968,135	\$ 517,498,553	\$ 548,548,467
Outpatient	<u>298,714,305</u>	<u>316,936,669</u>	<u>335,952,869</u>
Gross Patient Revenue	\$ 783,682,440	\$ 834,435,222	\$ 84,501,336
Charity Care	16,781,207	17,788,079	18,855,364
Deductions	<u>599,923,955</u>	<u>646,310,171</u>	<u>691,535,576</u>
Net Patient Revenue	\$ 66,977,278	\$ 170,336,972	\$ 174,110,396
Other Operating Revenue	\$ 1,811,357	\$1,849,084	\$ 1,887,565
Total Operating Revenue	\$ 168,788,635	\$ 172,186,056	\$ 175,997,961
Expenses			
Operating Expenses:			
Salaries	\$ 59,144,707	\$ 60,329,451	\$ 61,534,190
Benefits	11,628,603	11,863,025	12,098,436
Supplies	19,831,065	20,327,847	20,935,832
Services	10,602,205	10,710,077	10,915,328
Lease	1,689,944	1,725,593	1,758,255
Depreciation	7,550,058	7,778,409	8,119,911
Interest	101,853	102,722	103,215
Other	<u>25,230,613</u>	<u>25,737,075</u>	<u>26,249,967</u>
Total Expenses	\$ 135,779,048	\$ 138,574,199	\$ 141,715,134
Net Income (Loss)	\$ 33,009,587	\$ 33,611,857	\$ 34,282,827
Assumptions			
Inpatient days*	54,854	55,401	56,025
Outpatient days*	199,026	201,016	203,028
Procedures	221,543	224,309	227,346
Charge/outpatient day	\$ 1,501	\$ 1,577	\$ 1,655
Charge/inpatient day	\$ 8,841	\$ 9,341	\$ 9,791
Charge/procedure	\$ 3,537	\$3,720	\$ 3,891
Cost /inpatient day	\$ 2,475	\$ 2,501	2,529
Cost /outpatient day	\$ 682	\$ 689	\$ 698
Cost /procedure	\$ 613	\$ 618	\$ 623

Attachment 2

**Vicksburg Healthcare, LLC d/b/a River Regional Health System
 Cost Overrun on CON No.R-0871
 Construction of River Region Medical Office Building
 Computation of Construction and/or Renovation Cost**

Cost Component	Total Cost	New Construction	Renovation
New Construction Cost	\$7,139,902	\$7,139,902	
Renovation Cost	\$0		\$0
Total Fixed Equipment Cost	\$0	\$0	\$0
Total Non-Fixed Equipment Cost	\$2,881,134		
Land Cost	\$0	\$0	
Site Preparation Cost	\$1,200,461	\$1,200,461	
<i>Fees (Architectural, Consultant, etc.)</i>	\$920,419	\$920,419	\$0
<i>Contingency Reserve</i>	\$503,000	\$503,000	\$0
<i>Capitalized Interest</i>	\$193,877	\$193,877	\$0
<i>Other (Capital Improvements)</i>	\$4,130,218	\$0	
Total Proposed Capital Expenditure	\$16,969,011	\$9,957,659	\$0
Square Footage	66,812	66,812	0
<i>Allocation Percent</i>		100.00%	0.00%
Costs Less Land, Non-Fixed Eqt., Other	\$14,087,877	\$9,957,659	\$0
Cost Per Square Foot	\$210.86	\$149.04	0

Source: Mississippi Certificate of Need Review Manual, Revised 2011 and FY 2014 MSHP.