

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

**CON REVIEW: HG-A-0215-001
NESHOPA COUNTY GENERAL HOSPITAL
AMENDMENT AND COST OVERRUN TO CON NUMBER: HG-MOB-0614-009; R-0879
CONSTRUCTION OF MEDICAL OFFICE BUILDING
LOCATION: PHILADELPHIA, NESHOPA COUNTY, MISSISSIPPI
ORIGINAL CAPITAL EXPENDITURE: \$2,693,000
ADDITIONAL CAPITAL EXPENDITURE: \$1,556,252
REVISED CAPITAL EXPENDITURE: \$4,249,252**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Neshoba County General Hospital 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.

**Neshoba County General Hospital
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2011	21.96	5.50	0.75
2012	17.23	4.53	12.86
2013	20.97	4.11	13.97

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

B. Project Background

Neshoba County General Hospital (Neshoba General) was granted Certificate of Need (CON) No. R-0879 for the construction of a medical office building with an effective date of October 30, 2014 and an expiration date of October 30, 2015.

The scope of the original proposed project involved new construction of 22,000 square feet at an estimated cost of \$2,693,000. The applicant proposed a total capital expenditure in the amount of \$2,693,000 or \$117.86 per square foot for the project. The proposed estimate included construction, site preparation including parking construction, non-fixed equipment, and fees. A cost estimate was presented by E. Bowden Wyatt, Foil Wyatt Architects and Planners, PLLC providing a detailed assessment of the project. 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 in the originally proposed capital expenditure are to be paid by the applicant using its cash reserves.

The Medical Office Building (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. 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.

C. Project Description

Neshoba County General Hospital (Neshoba General) now requests Certificate of Need authority for amendment and cost overrun to its CON No. R-0879. Neshoba General asserts that the proposed amendment and cost overrun was inevitable to complete the MOB. According to the applicant, the proposed amendment and cost overrun is due to a revised project site design, relocation and cost estimate. The applicant affirms that the following were not included in the original proposed project:

- The Medical Office Building proposed location has moved approximately 500' to the north on the same site.
- 3,360 square feet of shell space build-out for future growth (roof, slab, exterior wall, etc;)
- A Radiology Suite for Digital X-Ray (with a budgeted allowance for any other incidentals in the implementation of the DR Imaging Suites.
- A \$300,000 budget for fixed equipment, which includes the proposed X-Ray.
- A Central Business Office, Laboratory, and Radiology Suite.

The applicant states that the amendment/cost overrun project cost is \$140 per square feet for 22,000 square feet for building construction (\$3,080,000) and \$52.12 per square feet for the shell space build-out (\$175,136). The applicant asserts that the original proposed blueprint was designed inexpensively, which was a single slope metal building with standalone, individualized physician suites

that were simultaneously lined up. However the newly proposed design is a conventional masonry construction with steel that incorporates a centralized clinic concept with sub clinic specialty departments. The applicant states that the Medical Office Building proposed location has moved approximately 500' to the north on the same site to improve exposure to the building. The applicant further affirms that the newly proposed design has been changed from the original design to provide better integration of practice and process which allow a better workflow.

The proposed amendment/cost overrun application contained a copy of the revised construction cost estimate prepared by FoilWyatt Architecture & Planners, PLLC. Audited financial statements were provided to present the financial status of Neshoba General regarding the proposed amendment/cost overrun project. The applicant also submitted a revised projected operating statement and a schematic drawing. The applicant affirms that the additional capital expenditure in the amount of \$1,556,252 for the proposed project was financed by from cash reserves.

According to the applicant, the capital expenditure approved in the original CON is \$2,693,000, and the additional amount for this amendment/cost overrun proposal is \$1,556,252, resulting in a revised capital expenditure of \$4,249,252 for the project. The applicant affirms that the construction start day has been projected for May 1, 2015.

The MSDH Staff contends that this amendment/cost overrun does change the scope of the original project.

The Mississippi State Department of Health, Division of Health Facilities Licensure and Certification approved the proposed site for the 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 13, 2015.

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 2014 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 2015 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 2011 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	\$ 1,980,000	\$ 3,255,136	\$ 1,275,136
2. Construction/Renovation	\$ 0	\$ 0	\$ 0
3. Land	\$ 0	\$ 0	\$ 0
4. Site Work	\$ 400,000	\$ 228,540	\$ (171,460)
5. Fixed Equipment	\$ 0	\$ 300,000	\$ 300,000
6. Non-Fixed Equipment	\$ 100,000	\$ 100,000	\$ 0
7. Contingency	\$ 0	\$ 0	\$ 0
8. Fees (Architectural, Consultant, etc)	\$ 213,000	\$ 365,576	\$ 152,576
9. Capitalized Interest	\$ 0	\$ 0	\$ 0
10. Capital Improvement	\$ 0	\$ 0	\$ 0
Total Capital Expenditure	<u>\$2,693,000</u>	<u>\$4,249,252</u>	<u>\$1,556,252</u>

As previously mentioned, the capital expenditure approved in the original CON is \$2,693,000 (construction of a MOB). The applicant asserts that the additional cost for the amendment/cost overrun proposal is \$1,556,252, resulting in a revised capital expenditure of \$4,249,252 for the project.

The applicant asserts that the proposed amendment/cost overrun is due to a revised project site design and cost estimate (See Section 1; Project Description). The applicant states that the proposed project start day has been projected for May 1, 2015.

The proposed amendment/cost overrun does change the scope of the original project.

B. Method of Financing

The applicant affirms that the additional capital expenditure in the amount of \$1,556,252 for the proposed project was financed by Neshoba General Hospital cash reserves.

C. Effect on Operating Cost

Neshoba County General Hospital asserts that the only effect on operating cost will be an decrease in site prep cost from \$400,000 (original) to \$228,540, a decrease of \$171,460 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 2014 Mississippi State Health Plan*, in effect at the time the original application was submitted; the *Mississippi Certificate of Need Review Manual, revised 2011*, 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 2015 Mississippi State Health Plan*.

The Division of Health Planning and Resource Development recommends approval of this application submitted by Neshoba County General Hospital for the amendment and cost overrun to its CON No. R-0879 (Construction of a Medical Office Building).