

**Division of Health Planning and
Resource Development
February 2004**

**CON REVIEW HG-MOB-1203-034
Delta Medical Center, Greenville
Construction of Medical Office Building
Capital Expenditure: \$23,794,607
Location: Greenville, Washington County, Mississippi**

STAFF ANALYSIS

1. PROJECT SUMMARY

A. Applicant Information

Delta Regional Medical Center (Applicant) operates as a county owned, not-for-profit, community hospital; is owned by Washington County, Mississippi, under the provisions of Mississippi Code Annotated §41-13-1 et. seq.; and receives policy and overall governance from a seven-member community-representative board appointed by the Board of Supervisors.

The Division of Health Facilities Licensure and Certification licenses Delta Regional Medical Center to operate up to 268 beds, but presently it operates only 165 beds of various categories. The licensed and "setup and staffed" bed capacities of Delta Medical are outlined below:

	Licensed Beds	Setup and Staffed Beds
Medical Surgery	205	71
Adult Psychiatric	16	7
Burn Unit	16	16
Adult CDU	15	8
Rehabilitation	16	16
Other	<u>0</u>	<u>47</u>
Total	<u>268</u>	<u>165</u>

Delta Regional participates in both the Medicare and the Medicaid programs and is accredited by the Joint Commission on Accreditation of Healthcare Organizations.

B. Project Description

Applicant requests Certificate of Need (CON) authority to construct a 105,900 square foot Medical Office Building (MOB) as the first component of the new campus that is planned for Delta Regional Medical Center to eventually be relocated to south Greenville. The proposed building will be comprised of two leaseable wings of approximately 49,000 square feet each, joined by an atrium between the two wings. The proposed MOB will be three stories in height, with a three level atrium that will serve as the main entrance to the medical office building and as the secondary entrance connecting to the future hospital. Delta Regional Medical Center presently holds a CON for an ambulatory surgery center, which is planned for the north side of the first floor of the new Medical Office Building. The construction of the MOB is not contingent upon DRMC being approved for relocation and replacement.

Of the \$23,794,607 proposed capital expenditure, \$14,500,770 (61.0 percent) has been allocated toward construction cost; \$4,342,946 (18.3 percent) toward fees; \$2,278,379 (9.6 percent) toward site preparation cost; \$1,677,915 (7.1 percent) toward contingency reserve; and the remainder for land cost (\$289,529), capitalized interest (\$605,068), and other cost (\$100,000). Applicant projects that about 62 percent of the available space will be reserved for use by Delta Medical or its affiliates, and approximately 33 percent of leaseable space is initially reserved by private physicians practices and the University of Mississippi Medical Center's Family Practice Residency Program. Applicant expects approximately 95 percent of the building will be occupied by opening day.

Construction of the MOB will commence within 90-120 days of final issuance of the CON. Completion of the project will be approximately 12 months from that date. Applicant expects to employ 13.17 full-time equivalent employees for the operation of the MOB at a first-year employment cost of \$327,947.

The Division of Health Facilities Licensure and Certification has approved the proposed site.

II. TYPE OF REVIEW REQUIRED

The MSDH reviews applications for the construction of medical office space in accordance with Section 41-7-191, subparagraph (1)(j), Mississippi Code of 1972 Annotated, and duly adopted rules, procedures, plans, criteria and standards of the Department.

This application was deemed complete on January 5, 2004. 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 March 4, 2004.

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

A. State Health Plan (SHP)

The 2004 State Health Plan does not address criteria and standards for construction of a medical office building. As previously stated, this proposal is for the construction of a medical office building in south Greenville by and on behalf of Delta Regional Medical Center.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, 2000*, addresses general criteria by which all CON applications are reviewed. This application is in substantial compliance with general review criteria.

GR Criterion 3 - Less Costly/More Effective Alternative

Applicant avows that no better alternative exists than the one proposed. Delta Medical presently holds a CON for the construction of an MOB on the campus of Delta Medical (CON#HG-MOB-0500-008). However, it became apparent to the Board of Trustees that the planned MOB would exhaust all available space for other facility expansion and the aging hospital would soon need replacement. After indepth investigation and upon advice of facility planners and architects, a new master plan was devised for the MOB and Delta Medical Center. This application represents the first phase of implementation of this master plan. Applicant states that the above mentioned CON will be recanted upon approval of proposal.

GR Criterion 4 - Economic Viability

According to the applicant, the project has been determined to be financially feasible by the hospital's management staff. The applicant's projected cost per square foot of \$90 is lower than the construction cost of similar projects reviewed recently by the Mississippi State Department of Health. The applicant projects a net loss from the operation of the MOB of \$2,043,130, \$2,029,673, and \$2,016,505 during the first three years of operation. Space within the MOB is composed of six types: (1) physician lease space; (2) space for an ambulatory surgery center; (3) space for certain hospital business offices/administrative support services; (4) space for outpatient diagnostic services to support the physician practices; (5) space for the University of Mississippi Medical School Family Practice Residency Program; and (6) space for other hospital services more appropriately contained in the MOB.

As stated above, most of the space in the MOB will be allocated toward the operation of Delta Regional Medical Center and not included in the profit/loss profile of the MOB. The hospital has projected a net income of \$8,594,000, \$10,722,000, and \$12,203,000 during the next three fiscal years, adequate to support the MOB.

GR Criterion 5 - Need

The applicant states that the vacancy of suitable office space adequate for medical offices/clinics in the immediate area is almost zero. Lack of available medical office space hinders physician growth opportunities and the recruitment of needed physicians, particularly the primary care physicians needed to improve access to health care.

GR Criterion 6 - Accessibility

Delta Regional Medical Center serves all of the population of its service area, including low income, racial and ethnic minorities, women, and handicapped persons. The hospital provides health care services to any individual who comes to it in need of such services regardless of age, creed, sex, race, or ability to pay. The applicant expects utilization of the new facility by medically indigent patients will at least match the medical center's utilization rate.

GR Criterion 8 - Relationship to Existing Health Care System

The applicant states that the proposed project does not involve the offering of new health care services. Staff concludes that this project will have no adverse affect on other health care providers in the area. The application included letters of support/comments from physicians interested in the lease of office space in the proposed MOB.

GR Criterion 16 - Quality of Care

The applicant states that the quality of care for clinical services at Delta Regional Medical Center is excellent. The Medical Center is accredited by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO), licensed by the Mississippi State Department of Health Division of Licensure and Certification, and certified for both Medicare and Medicaid.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

New Construction	\$ 14,500,770
Land Cost	289,529
Site Preparation	2,278,379
Fees	4,342,946
Contingency Reserve	1,677,915
Capitalized Interest	605,068
Other Cost	<u>100,000</u>
Total Expenditure	<u>\$23,794,607</u>

The proposed capital expenditure is for construction of a 105,900 square-foot medical office building at a cost of \$90 per square foot. The *2004 Means Building Construction Cost Data* lists the median cost of medical offices at \$97.50 per square foot.

B. Method of Financing

Delta Regional Medical Center will contribute \$3,094,607 of the total proposed capital expenditure of \$23,794,607 from cash reserves. The remaining \$20,700,000 will be financed at a rate of 3.12 percent, amortized over 20 years. Several commercial lending firms offered letters of support for the proposal. Applicant states that the entire amount will be repaid by a bond issue that will be developed within three to five years in conjunction with the replacement and relocation of Delta Regional Medical Center.

C. Effect on Operating Cost

Applicant Projects the following results of operation for the first three years following the completion of the project:

<u>Income</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Rental/Lease Income	\$ 314,900	\$ 314,900	\$ 314,900
Total Income	<u>314,900</u>	<u>314,900</u>	<u>314,900</u>
 <u>Expenses</u>			
Salaries and Wages	327,947	334,506	341,196
Employee Benefits	42,961	43,820	44,697
Supplies	14,000	15,000	16,000
Utilities	518,500	520,000	522,000
Insurance	26,400	27,000	28,000
Depreciation	793,154	793,154	793,154
Interest	<u>635,068</u>	<u>611,093</u>	<u>586,358</u>
Total Expenses	<u>2,358,030</u>	<u>2,344,573</u>	<u>2,331,405</u>
Net Income (Loss)	(\$2,043,130)	(\$2,029,673)	(\$2,016,505)

Most of the space in the MOB will be allocated toward the operation of Delta Regional Medical Center and not included in the profit/loss profile of the MOB. The hospital has projected a net income of \$8,594,000, \$10,722,000, and \$12,203,000 during the next three fiscal years, adequate to support the MOB.

D. Cost to Medicaid/Medicare

The proposed project is for the construction of a medical office building, and will not involve inpatient care. Therefore, it will not have any effect on third party payors.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for review and does not oppose this project. However, Medicaid did voice concern that the cost of this project is not reimbursable by the Division of Medicaid. Medicaid also stated that this project is not patient care, and it must not become part of the overhead considered in computing inpatient per diem. Any cost related to the project should be clearly distinguished in all future cost reports.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the overall objectives of the *2004 State Health Plan*; Chapter 8 of the *Certificate of Need Review Manual, 2000* revisions; and all adopted rules, procedures, and plans of the Mississippi State Department of Health.

The Division of Health Planning and Resource Development, therefore, recommends approval of this application for the construction of a medical office building submitted by or on behalf of Delta Regional Medical Center.