

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
FEBRUARY 2010**

**CON REVIEW: HG-MOB-1109-033
FORREST COUNTY GENERAL HOSPITAL D/B/A
HIGHLAND COMMUNITY HOSPITAL
CONSTRUCTION OF A MEDICAL OFFICE BUILDING
CAPITAL EXPENDITURE: \$3,802,500
LOCATION: PICAYUNE, PEARL RIVER COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Forrest County General Hospital, d/b/a Highland Community Hospital is a short-term, general acute care, public hospital currently being relocated and constructed under CON # R-0758. The facility is governed by a seven-member Board of Trustees. The facility is certified to participate in the Medicare and Medicaid programs and is accredited by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO).

Highland Community Hospital consists of 95 licensed beds. The occupancy rates, average length of stay (ALOS), and Medicaid utilization for the three most recent years are as follows:

**Highland Community Hospital
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2006	19.41	2.82	24.03
2007	18.65	2.55	19.85
2008	23.11	3.04	21.03

Source: Division of Health Facilities Licensure and Certification, MSDH

B. Project Description

Forrest County General Hospital, d/b/a Highland Community Hospital (Forrest General/Highland) requests Certificate of Need (CON) authority to construct a 20,000 square foot one-story medical office building adjacent to the future Highland Community Hospital located in Picayune, Mississippi.

The applicant states that the facility will be owned by Highland Community MOB (Medical Office Building), LLC and will reside on space owned by Forrest General/Highland in the new Highland Commons area of Picayune, under a ground lease from Forrest General/Highland to Highland Community MOB, LLC. The ground lease will cover approximately 21,600 square feet, just slightly larger than the footprint of the building.

The applicant asserts that the medical office facility is intended for the recruiting of existing and new physicians to the area. Therefore, the facility will be 100% leased to Forrest General/Highland until physician tenants are recruited. As each physician is recruited and signs a lease, the Forrest General/Highland lease commitment will be reduced accordingly.

Forrest General/Highland intends to construct a new hospital facility under CON #R-0758. The applicant states that the proposed medical office facility is needed to support the number of physicians needed to effectively provide medical services to the residents.

The applicant states that the proposed project will consist of the following parts:

- **Site:** The site is shared with the future hospital, while parking for the new MOB will be separate; it will be integrated into the final site design relative to the hospital. Approximately 120 parking spaces will be required and provided including a minimum of 10 to 20 percent handicap accessible parking as required and provided by the Americans With Disabilities Act. The parking layout is designed to allow patients convenient parking and access into the building through a central front entrance or one of two side entries. Staff parking and building access will be in the rear of the building. Each entrance will be covered; however, the main patient entrance will also have a covered vehicular drop-off for convenience.
- **Building General:** The facility is approximately 19,971 square feet and measures 272'-4" x 73' -4", one story in height. The overall layout of the plan consists of five lease spaces of varying sizes which may be subdivided as needed to suite tenants. Two of these spaces will be shelled out for future tenants. The lease spaces are exterior.
- **Building Exterior:** The exterior of the facility is intended to compliment the design of the future hospital. The exterior is metal clad in a grid pattern, highlighting entry points, openings and other design features. The exterior wall extends past the flat roof to conceal roof mounted equipment and provide additional height and interest to the exterior.

The applicant provided a letter from the architect to verify the estimated cost to complete the project. The applicant asserts the estimated cost for the construction including Site Work, Architect Fees and Contractor Fees of the proposed project is \$3,175,000 or \$159.00 per square feet. The overall floor plan consists of 19,971 square feet with 700 square feet being built out and the remaining area shelled in for future expansions.

The applicant states that no new staff will be required in relation to the proposed project.

If the proposed project is CON approved, the applicant asserts that the project shall commence by July, 2010, and be completed by July 2011.

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 March 10, 2011.

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

A. State Health Plan (SHP)

The *FY 2010 Mississippi State Health Plan (FY 2010 MSHP)* contains criteria and standards which the applicant is required to meet before receiving CON authority for construction, renovation, and the acquisition of major medical equipment. This application is in compliance with applicable criteria and standards.

SHP Criterion 1- Need

Highland Community Hospital proposes to construct a medical office building (MOB). The applicant asserts that the need for a MOB is evidenced by the lack of nearby medical office space to facilitate expanding medical staff and private practicing physicians.

SPH Criterion 2 - Bed Service Transfer/Reallocation/Relocation

This criterion is not applicable to the proposed project.

SHP Criterion 3 - Charity/Indigent Care

Highland Community Hospital asserts that it will continue to provide a significant amount of indigent/charity care. Highland Community Hospital affirmed that 21.2% of its gross patient revenue in 2009 was provided for medically indigent and charity care patients.

SHP Criterion 4 - Cost of Proposed Project

- a. **Cost per Square Foot:** The applicant states that the proposed project consists of approximately 20,000 square feet of new construction at \$159.00 per square feet. The RSMeans Building Construction Cost Data, 2009 Edition states that the cost per square foot ranges from \$112 - \$169 for the construction of Medical Office Buildings.
- b. **Equipment Cost:** The applicant states that no equipment is planned for the proposed facility.

SHP Criterion 5 - Floor Area and Space Requirements

- a. The applicant asserts that the gross square footage of the proposed project is comparable in size and cost to similar projects in the state of Mississippi.

- b. The applicant asserts that the architectural design does not place material restraints on the proposed project.
- c. The applicant asserts that design and construction plans have taken the threat of tropical weather systems into consideration including storm surges and hurricane force winds.

SHP Criterion 6 – Cost of Proposed Renovation or Expansion Project

This project is for the construction of a medical office building. No renovation or expansion is required for this project.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, December 1, 2009, 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 2010 State Health Plan*.

GR Criterion 2 - Long Range Plan

The applicant states the recruitment of physicians is an integral part of their long range plans; however, the plan has been hindered due to the lack of suitable office space. The applicant affirms the proposed project will provide the framework for physicians to come into the medical underserved area and establish their practice.

The applicant further states, that in April 2009, Forrest General Hospital/Highland Community Hospital issued a request for proposals for the Picayune medical office facility, receiving four proposals. DC General Contractors, Inc., and Highland Community MOB, LLC, were selected through a rigorous evaluation process in May 2009. The arrangement has been approved by the Board of Trustees of Forrest General/Highland as part of the planning and approval process.

GR Criterion 3- Availability of Alternatives

According to the applicant, three alternatives were considered:

1. To not construct any new medical office space; let the market take care of any need for new medical office space.
2. To construct medical office space that is owned by Highland and leased to physicians.
3. The moderation of existing medical office buildings.

The applicant affirms:

- No 20,000 square foot medical office space exists in Picayune.
- If the proposed space was available, the cost of acquiring and modifying the space to Class A standards would likely be a more costly alternative, and the MOB would not be on the new hospital campus, thus being inconvenient to physicians.
- Patients would not have a convenient place to see physicians locally and would continue costly and inconvenient travel out of state for care.

The applicant asserts that despite the large and growing population, Picayune is designated as a Medically Underserved and Health Professional Shortage Area.

The applicant suggests, without significant new medical office space in Picayune, it will not be possible to recruit the number of new physicians that are needed to serve the growing population in the proposed area.

The applicant concluded that the proposed project is the only workable solution.

GR Criterion 4 - Economic Viability

- Proposed Charge:** The applicant states that the proposed charges for rent were developed using the cost of the ground lease and construction, based on expected borrowing rates and real estate industry standard capitalization rates, using a tenant build-out-allowance that will provide an acceptable level of Class A occupancy. The applicant further states that the proposed project is based on reasonable fair market value rent and consistent with the market. There is currently no comparable Class A medical office space or regular office space in the Picayune area.
- Projected Levels of Utilization:** The proposed project is for the construction of a medical office building therefore no levels of utilization are required. The medical office building will be intended for recruiting existing and new physician in the proposed area.
- Project's Financial Feasibility Study:** The application contained a letter signed by the hospital's chief financial officer asserting that the project is financially feasible.

GR Criterion 5 - Need for the Project

The applicant indicates that according to the HPSA (Health Professional Shortage Area) website, Pearl River County has a shortage of 10 primary care providers. The applicant suggests that specialists are also needed to serve the proposed area. With a need of 10 or more physicians, the applicant suggests that the addition of the medical office building is not expected to have an adverse effect on any existing facilities.

The applicant states that because of the shortage of physicians, residents are traveling to Slidell, LA for medical care. The applicant affirms that it is in the best interest of both Pearl River County and the state to keep healthcare dollars in Mississippi. Furthermore, the applicant suggests that keeping patients in the Picayune area should reduce the cost of Mississippi Medicaid and other payers

and employers by 10-20 percent for those patients.

The applicant states that the purpose of this new medical office facility is to provide the infrastructure needed to recruit new physicians to the area to help meet the unmet need for both primary care and specialists. Patients will be able to take advantage of physicians' offices that are conveniently located to diagnostic and therapeutic services provided at Highland Community Hospital.

The application contains seven letters of support.

The Department received no letters of opposition concerning the proposed project.

GR Criterion 6 – Accessibility

Highland Community Hospital treats all patients including Medicaid recipients, charity/medically indigent patients, racial and ethnic minorities, women, handicapped persons, and the elderly, will have access to the services of the facility.

The applicant suggests upon the project's approval, Medicare, Medicaid and medically indigent patients will have significantly improved access to physicians. Currently, they have limited access to physician services because of the limited number of physicians in town. The applicant states that lack of medical office space is a key factor in this barrier.

The MOB will have direct access to Highway 11 and Interstate 59 via Highway 43 North. Access will be provided to Highway 11 without passing through residential zones.

The medical office building will tentatively operate from 7:00 a.m. to 5:00 p.m. Monday through Friday. Weekend hours will be based on community need. Emergencies will continue to be treated at Highland Community Hospital.

GR Criterion 7- Information Requirement

Highland Community Hospital indicates that it will record and maintain the information required by this criterion and shall make the data available to the Mississippi State Department of Health within fifteen (15) business days of request.

GR Criterion 8 - Relationship to Existing Health Care System

Highland Community Hospital asserts that there are no comparable services within the Pearl River County. The applicant suggests that in addition to bringing in much needed physicians, the MOB will complement existing services through improved patient access, improved patient flow through hospital services, improved quality of care, and improved patient satisfaction.

Highland Community Hospital states that they are currently, actively recruiting physicians. However, physicians are unable to secure sufficient Class A space. The applicant affirms this project will provide such office space as well as provide for future growth.

The applicant affirms the hospital will continue to face difficulties in recruiting new physicians to the area without the development of a MOB.

GR Criterion 9 - Availability of Resources

Highland Community MOB, LLC will provide leasing management services, and will recruit maintenance and housekeeping personnel on a contract basis from the community. Highland Community Hospital contends that no new personnel will be needed for the MOB.

GR Criterion 10 - Relationship to Ancillary or Support Services

The applicant asserts that the project should not have an adverse effect upon the delivery of ancillary or support services nor the charges associated with the services.

GR Criterion 11- Health Professional Training Programs

Since the proposed project is for the construction of a MOB, the clinical needs of health professional training programs will not be affected by the project. The applicant contends that this criterion is not applicable to the proposed project.

GR Criterion 12- Access by Health Professional Schools

The project does not propose to establish or offer any type of health services which may require health professional schools to have access to the services for training purposes. The applicant asserts that this criterion is not applicable to the proposed project.

GR Criterion 14 - Construction Projects

- a. **Cost Estimate:** The application contains a cost estimate prepared by Phillip L. Perkins, AIA, Architect.
- 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:** This project involves the construction of a MOB.
- e. **Cost per square foot:** The ground lease will cover approximately 21,600 square feet, just slightly larger than the footprint of the building. The applicant states that the proposed project consists of approximately 20,000 square feet of new construction at \$159.00 per square feet. The RSMMeans Building Construction Cost Data, 2009 Edition states that the cost per square feet ranges from \$112 - \$169 for the construction of Medical Office Buildings.

GR Criterion 16 - Quality of Care

Highland Community Hospital believes that by providing Class A medical office space to attract physicians to the area will improve quality of care by improving access to physicians' services for all citizens.

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	\$ 3,175,000	83.50%
b.	Construction Cost – Renovation	\$ 0	0%
c.	Capital Improvements	\$ 0	0%
d.	Total Fixed Equipment Cost	\$ 0	0%
e.	Total Non-Fixed Equipment Cost	\$ 0	0%
f.	Land Cost	\$ 0	0%
g.	Site Preparation Cost	\$ 75,000	1.97%
h.	Fees (architectural, consulting, etc.)	\$ 227,500	5.98%
i.	Contingency Reserve	\$ 325,000	8.55%
j.	Capitalized Interest	\$ 0	0%
k.	Other (Personal Financing)	\$ 0	0%
	Total Proposed Capital Expenditure	\$ 3,802,500	100%

Forrest County General Hospital, d/b/a Highland Community Hospital proposes to construct a medical office building. The ground lease will cover approximately 21,600 square feet. The overall floor plan consists of 19,971 square feet with 700 square feet being built out and the remaining area shelled in for future expansions.

The cost to construct the 20,000 square feet of space will be \$159.00 per square feet. The RSMeans Building Construction Cost Data, 2009 Edition states that the cost per square feet ranges from \$112 - \$169 for the construction of Medical Office Buildings.

B. Method of Financing

The applicant intends to finance the proposed project from operating cash flows.

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 an 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 was provided a copy of this application for comment. No comments have been received.

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 *2010 Mississippi State Health Plan*; Chapter 8 of the *Mississippi Certificate of Need Review Manual, December 1, 2009, 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 Forrest General Hospital d/b/a Highland Community Hospital for the construction of a medical office building.

**Forrest County General Hospital
 d/b/a Highland Community Hospital**

**Three-Year Operating Statement
 Attachment I**

	Year 1	Year 2	Year 3
Revenue			
Inpatient Care Revenue	\$ 11,363,287	\$ 39,293,626	\$ 51,520,670
Outpatient Revenue	\$ 15,355,726	\$ 57,604,244	\$ 87,816,168
Gross Patient Revenue	\$ 26,719,013	\$ 96,897,870	\$139,336,838
Charity	\$ 293,464	\$ 510,759	\$ 1,144,957
Deductions from Revenue	\$ 23,454,764	\$ 78,408,243	\$112,655,062
Net Patient Care Revenue	\$ 3,557,713	\$ 17,978,868	\$ 25,536,819
Other Operating Revenue	3,877	140,059	162,139
Total Operating Revenue	\$ 3,553,836	\$ 18,118,927	\$ 25,698,958
Operating Expenses			
Salaries	\$ 1,619,260	\$ 7,885,977	\$ 12,283,279
Benefits	654,089	1,590,930	2,247,384
Supplies	442,738	3,188,986	4,657,655
Services	532,502	177,015	538,157
Lease Expenses	(96,065)	(82,082)	(60,518)
Depreciation	289,678	2,184,488	2,070,547
Interest	1,994	2,695,442	2,641,785
Other	170,474	228,381	286,794
Total Operating Expenses	\$ 3,031,327	\$ 17,869,136	\$ 24,665,085
Net Operating Income	\$ 522,510	\$ 249,791	\$ 1,033,876
	Proposed Year 1	Proposed Year 2	Proposed Year 3
Inpatient days	893	5,174	6,527
Outpatient days	1,025	7,516	11,446
Charge per inpatient day	12,721	7,594	7,894
Charge per outpatient day	14,976	7,664	7,672
Cost per inpatient day	3,393	3,454	3,779
Cost per outpatient day	2,956	2,377	2,155