

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

**CON REVIEW HG-C0-0610-027
OKTIBBEHA COUNTY HOSPITAL D/B/A OCH
REGIONAL MEDICAL CENTER
COST OVERRUN TO CON #R-0811
(CONSTRUCTION OF A MEDICAL OFFICE BUILDING)
APPROVED CAPITAL EXPENDITURE: \$2,555,400
ADDITIONAL CAPITAL EXPENDITURE: \$596,076
REVISED CAPITAL EXPENDITURE: \$3,151,476
LOCATION: STARKVILLE, OKTIBBEHA COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Oktibbeha County Hospital d/b/a OCH Regional Medical Center is a short-term, general acute care, public hospital located in Starkville, Oktibbeha County, Mississippi. 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).

According to the Mississippi State Department of Health, Division of Health Facilities Licensure and Certification, on January 10, 2006, Oktibbeha County Hospital entered into an operating agreement with SCW Properties, LLP, to form a Mississippi Liability Company called OCH/SCW Mammography, LLC. The hospital owns 51 percent of the LLC. The purpose of the LLC was to form a joint venture with the local obstetrical/gynecology physician group for acquisition of a digital mammography unit and to enter into an equipment rental arrangement for five (5) years with the hospital.

Oktibbeha County Hospital consists of 96 licensed beds. The occupancy rates, average length of stay (ALOS), and Medicaid utilization for the three most recent years are as follow:

**Oktibbeha County Hospital
Utilization Data**

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2007	36.82	3.65	38.51
2008	35.23	3.59	36.40
2009	34.39	3.78	34.63

Source: Division of Health Facilities Licensure and Certification, MSDH

B. Project Background

Oktibbeha County Hospital d/b/a OCH Regional Medical Center received Certificate of Need No. R-0811 for the Construction of a Medical Office Building, effective May 27, 2010, with an expiration date of May 27, 2011. The project involved construction of a 13,767 square foot one-story medical office building located approximately 0.2 miles from the existing hospital.

The applicant states that the facility will be owned by Oktibbeha County Hospital and will be located on 6.75 acres of Hospital owned property on the northeast end of Hospital Road, Starkville, Oktibbeha County, Mississippi. The Medical Office Building (MOB) will be leased to the Starkville Clinic for Women, PA with the sole group of physicians serving as tenant and Oktibbeha County Hospital as the owner of the facility.

OCH Regional Medical Center asserts that the medical office building is intended for the recruitment and retention of new and existing physicians in the area. According to the terms of the lease agreement between the owner and tenant, the new MOB will be leased to the tenant upon the acquisition of the existing MOB located at 107 Doctors Park, Starkville, Mississippi.

The applicant states that no new personnel will be necessary for the proposed project. Satisfactory resources are available to accommodate the administrative demands of the clinic. The applicant asserts that an additional obstetrician/gynecologist has been recruited for a total of seven physicians partnered with Starkville Clinic for Women, P.A.

The applicant was approved for the proposed capital expenditure of \$2,555,400, which included the following: construction (77.21percent), fixed equipment (1.57 percent), site preparation (9.66 percent), contingency reserve (5.48 percent) and fees (6.08 percent). The original proposal was to be financed with the fair market value rental on income generated from the 10-year lease established between the occupant and the applicant.

C. Project Description

Oktibbeha County Hospital d/b/a OCH Regional Medical Center now requests Certificate of Need authority for a cost overrun to its CON No.R-0811. The applicant asserts that the proposed cost overrun is necessary because the project's low bid exceeded the architect's cost estimate included in the original CON and the project is related to compliance with requirements of the Division of Health Facilities Licensure and Certification of the Mississippi State Department of Health. According to the applicant, the capital expenditure approved in the original CON is \$2,555,400 and the additional costs for this cost overrun proposal are \$596,076 resulting in a revised capital expenditure of approximately \$3,151,476 for the project. This cost overrun project does not change the scope of the original project.

The applicant asserts that the proposed cost overrun is a result of the following two primary factors:

- As a prerequisite to final approval by the city of Starkville, the fire marshal mandated that the main entrance drive be extended approximately 490 linear feet and double ingress/egress curb cut provided onto North Jackson Street to facilitate access for fire fighting apparatus in the event of a fire. This requirement was a reversal of the initial city position which allowed a circular turnaround, and thus was not included in the original CON cost estimate.
- During the months immediately preceding the receipt of bids, the construction market in Mississippi had become inflationary, with documented increases in the cost of a number of basic building materials, including but not limited to structural and reinforcing steel; steel studs, door frames, steel pipe, tube, hardware, and metal duct; aluminum and copper (especially copper wire); gypsum board; lumber and plywood; concrete pipe and pvc pipe; oil-related products and asphalt.

Oktibbeha County Hospital d/b/a OCH Regional Medical Center asserts that construction has not begun, and no capital expenditure has been made for construction other than architect fees, architect reimbursable expenses and engineering fees of \$185,102.36. The estimated target date for construction is July 2010 and the project's completion date is June 11, 2011, pending CON approval of this cost overrun project.

II. TYPE OF REVIEW REQUIRED

The original project was reviewed under the applicable statutory requirements of Section 41-7-191, subparagraph (1) (j), Mississippi Code of 1972, as amended.

The State Health Officer reviews all projects for cost overruns in accordance with duly adopted rules, procedures, plans, criteria and standard 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 September 22, 2010.

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

A. State Health Plan

The original project was in substantial compliance with the *FY 2010 State Health Plan*, in effect at the time the original application was submitted. This cost overrun project continues to be in substantial compliance with the *State Health Plan*.

B. General Review Criteria

The original project was in substantial compliance with the *Certificate of Need Review Manual, 2009 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 *Manual*.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

	<u>Approved Capital Expenditure</u>	<u>Revised Capital Expenditure</u>	<u>Increase (Decrease)</u>
New Construction	\$1,973,040	\$2,238,093	\$265,053
Renovation	0	0	0
Capital Improvements	0	0	0
Land	0	0	0
Site Work	246,960	576,371	329,411
Fixed Equipment	40,000	40,000	40,000
Non-Fixed Equipment	0	0	0
Architectural/Engineering Fees	155,400	197,012	41,612
Contingency Reserve	140,000	100,000	(40,000)
Capitalized Interest	0	0	0
Miscellaneous	0	0	0
Total	<u>\$2,555,400</u>	<u>\$3,151,476</u>	<u>\$596,076</u>

As previously mentioned, the capital expenditure approved in the original CON is \$2,555,400 and the additional costs for this cost overrun proposal are \$596,076 resulting in a revised capital expenditure of approximately \$3,151,476. This cost overrun project does not change the scope of the original project.

B. Method of Financing

According to the applicant, this cost overrun project will be financed with the hospital's reserve funds.

C. Effect on Operating Cost

Revised Projected Operating Statement
 For the First Full year of Operation
 After Completion of the Project

Revenue	
Patient Service Revenue	\$0
Deductions	0
Total Operating Revenue	<u>\$144,294</u>
Expenses	
Personnel	\$0
Expenses & Supplies	0
Depreciation	81,659
Interest	0
Total Operating Expense	<u>\$81,659</u>
Net Income (Loss)	<u>\$ 62,635</u>
Assumptions	
Occupancy Rate	NA
Patient Days	NA
Medicare Utilization	NA
Medicaid Utilization	NA
Other	NA

D. Cost to Medicare/Medicaid

The proposed cost overrun project has not changed from the original project. OCH Regional Medical Center asserts that the project is for the construction of a MOB and will not have a material impact on Medicaid/Medicare. Therefore, the project will not have any effect on third party payors.

V. RECOMMENDATION OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this cost overrun to CON #R-0811 for review and comment; however, the Department received no response, as of the date of this staff analysis.

VI. CONCLUSIONS AND RECOMMENDATION

This project continues to be in substantial compliance with the overall objectives of the FY 2010 *State Health Plan; Certificate of Need Review Manual; Revised 2009*; and all adopted rules, procedures, and plans of the Mississippi State Department of Health in effect at the time of approval.

The Division of Health Planning and Resource Development recommends approval of the application submitted by Oktibbeha County Hospital d/b/a OCH Regional Medical Center for a cost overrun to CON #R-0811(Construction of a Medical Office Building).