

**MISSISSIPPI STATE DEPARTMENT OF HEALTH  
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT  
NOVEMBER 2007**

**CON REVIEW: HG-C-0907-023  
JEFF ANDERSON REGIONAL MEDICAL CENTER  
CONSTRUCTION/ EXPANSION OF MEDICAL OFFICE BUILDING  
CAPITAL EXPENDITURE: \$18,468,476  
LOCATION: MERIDIAN, LAUDERDALE COUNTY, MISSISSIPPI**

**STAFF ANALYSIS**

**I. PROJECT SUMMARY**

**A. Applicant Information**

Jeff Anderson Regional Medical Center (JARMC) is a non-profit, 260-bed general acute care hospital. The hospital is governed by a five-member Board of Directors. Jeff Anderson Regional Medical Center is accredited by the Joint Commission on the Accreditation of Healthcare Organizations and licensed by the Mississippi State Department of Health.

The occupancy rates, average lengths of stay (ALOS), and the Medicaid utilization rates for JARMC are as follows for the years 2004 through 2006:

**Jeff Anderson Regional Medical Center  
Utilization Data**

<b>Fiscal Year</b>	<b>Occupancy Rate (%)</b>	<b>ALOS (Days)</b>	<b>Medicaid Utilization Rate (%)</b>
2004	58.16	5.36	10.78
2005	59.95	5.44	12.16
2006	56.19	5.34	14.39

**Source:** Division of Health Facilities Licensure and Certification, Mississippi State Department of Health (MSDH).

**B. Project Description**

Jeff Anderson Regional Medical Center is requesting Certificate of Need (CON) authority for construction, renovation and expansion of an existing Medical Office Building. The proposed project is an expansion of the Medical Towers, a six story medical office building located on the campus of Jeff Anderson Regional Medical Center in Meridian, Mississippi. The additional space will be used to provide staff physicians with appropriate medical office space. To accommodate the existing shortage of medical office space and provide space for normal growth in the future, the total project will consist of approximately 105,826 square feet of additional

space. The medical office building will operate ten hours per day, five days per week.

According to the applicant, the first level will be connected to a parking area west of 22<sup>nd</sup> Avenue and will be accessed through a Foot Bridge; however, the second, third, and fourth floor parking will be connected to the existing parking complex. The applicant states that any new construction will match the existing building with exterior brick and curtain wall.

The applicant asserts that JARMC is a Regional Referral Center for East Central Mississippi; therefore, as a major referral center the hospital offers a full range of sub-specialty services. The hospital offers sophisticated diagnosis and treatment in the areas of Cardiology, Neurology, Neurosurgery, Oncology, and Radiology. The applicant believes that the renovation and expansion of medical office space is a logical complement to the sub-specialty services currently available at JARMC to accommodate the planned expansion of the medical staff.

According to the applicant, there will be no new services involved as a result of the proposed project.

The total proposed capital expenditure of \$18,468,476 is composed of new construction (77 percent), fees (5 percent), site preparation cost (2 percent), land cost (2 percent) contingency reserve (4 percent), other (1 percent), and fixed equipment (9 percent). The applicant proposes to finance this project with cash reserves.

According to Mississippi State Department of Health Division of Health Facilities Licensure and Certification, the site is acceptable for the intended use.

According to the applicant, the anticipated date for obligation of the proposed capital expenditure is January, 2008, with completion scheduled for December, 2008.

## **II. TYPE OF REVIEW REQUIRED**

This project is reviewed in accordance with Section 41-7-191, subparagraph (1)(j), Mississippi Code of 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 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 December 5, 2007.

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

#### A. State Health Plan (SHP)

The *FY 2007 State Health Plan* contains criteria and standards which an applicant is required to meet prior to undertaking major construction, renovation, expansion, capital improvements, replacement of health care facilities, and addition of hospital beds. This application is in substantial compliance with applicable criteria and standards.

##### **SHP Criterion 4 –Cost of Project**

- a. **Cost per Square Foot:** The applicant states that the proposed project consists of 105,826 square feet of new construction. The cost per square foot of new construction is \$171.53 for the project. *Means Building Construction Cost Data, 2007 Edition*, does not compare costs of construction specifically for medical office buildings.
- b. **Equipment Cost:** The applicant proposes to purchase fixed equipment at a cost of \$1,653,000.

#### B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, Revised November 12, 2006*, 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 project is consistent with the *FY 2007 State Health Plan*.

##### **GR Criterion 2 - Long Range Plan**

The applicant states that Jeff Anderson Regional Medical Center is a regional referral center for East Central Mississippi. As a major referral center, the hospital offers a full range of sub-specialty services. The expansion of medical office space is a logical complement to the sub-specialty services currently available at JARMC.

##### **GR Criterion 3 – Availability of Alternatives**

According to the applicant, the Medical Center has experienced tremendous growth in the delivery of health care services; however, the alternative to do nothing has caused significant difficulty in locating suitable office space for members of the medical staff, which is unacceptable to JARMC.

The applicant believes that the proposed project is the only acceptable alternative; therefore, JARMC will not have to continue to search for adequate physician office space for the new physicians relocating to Meridian, Mississippi.

#### **GR Criterion 4 - Economic Viability**

Based on the applicant's three-year projections, this project results in net losses of \$422,022 and \$175,943 for the first two years of operation, and a net gain of \$259,586 in year three.

- a. **Proposed Charge:** According to the applicant, there are no projected revenues and utilization associated with this project. There should be no impact on gross revenue and minimal impact on expenses per patient day or per procedure.
- b. **Projected Levels of Utilization:** As mentioned above, there are no projected patient revenues and utilization associated with this project.
- c. **Project's Financial Feasibility Study:** The application contained a letter signed by the hospital's controller attesting to the financial feasibility for the project.

#### **GR Criterion 5 - Need for the Project**

- a. **Access by Population Served:** The applicant asserts that there are no clinical services associated with this project.
- b. **Relocation of Services:** This application is for the construction, renovation, and expansion of an existing medical office building located on the campus of JARMC in Meridian.
- c. **Probable Effect on Existing Facilities in the Area:** The proposed project should have no effect on existing facilities in the area because no additional beds or services will be added.
- d. **Community Reaction:** The application contains one letter of support for the project from the Administrator of Meridian Medical Associates, P.A., a tenant in the existing medical office building.

#### **GR Criterion 6 - Access to the Facility or Service**

- a. **Medically Underserved Population:** According to JARMC, the facility maintains no institutional barriers to treating medically indigent patients who receive care or other clinical services.

- b. Performance in Meeting Federal Obligations:** The applicant submits that JARMC has no obligations under any federal regulations requiring uncompensated care, community service, or access by minority/handicapped persons.
- c. Unmet Needs to be Served by Applicant:** JARMC is a Medicare and Medicaid provider. The applicant reports that in 2005 and 2006, 2 percent, of its gross patient charges resulted in uncompensated care. The applicant further projects that two percent of its services will be utilized by medically indigent patients.

**GR Criterion 7 - Information Requirement**

JARMC affirmed that it will record and maintain the information required by this criterion and make it available to the Mississippi State Department of Health within 15 business days of request.

**GR Criterion 8 - Relationship to Existing Health Care System**

The applicant believes that the establishment of additional office space will increase the number of physicians available to treat the target population. The limited amount of space in the medical office building limits the physicians to seeing fewer patients in the clinic due to space constraints.

JARMC does not anticipate that the approval of this application will have an adverse impact on other providers in GHSA 4.

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

Staff does not anticipate that this project will have an adverse impact on any of the existing hospitals in GHSA 4.

**GR Criterion 9 - Availability of Resources**

JARMC stated the facility has access to the resources and personnel to successfully operate the medical office building.

**GR Criterion 10 – Relationship to Ancillary or Support Services**

According to the applicant, the proposed project will have no impact on ancillary or support services.

**GR Criterion 14 - Construction Projects**

- a. **Cost Estimate:** The application contains a cost estimate prepared by Foil Wyatt, Architects & Planners, P.A.
- b. **Schematic Drawing:** The application contains a schematic drawing of the proposed construction project.
- c. **Space Allocations:** The applicant submits that it will continue to meet state and local building codes, zoning ordinances and other regulatory requirements.
- d. **New Construction Projects:** This project involves the construction, renovation, and expansion of an existing medical office building.
- e. **Cost per square foot:** The total project will cost \$171.53 per square foot for new construction (see Attachment 1). The *Means Building Construction Cost Data, 2007 Edition*, does not compare costs of construction for medical office buildings.

**GR Criterion 16 - Quality of Care**

JARMC is licensed by the Division of Health Facilities Licensure and Certification, MSDH. The facility is accredited by the Joint Commission on Accreditation of Health Care Organizations.

**IV. FINANCIAL FEASIBILITY**

**A. Capital Expenditure Summary**

The total estimated capital expenditure is allocated as follows:

<b>Cost Item</b>	<b>Projected Cost</b>	<b>Percent</b>
Construction Cost -- New	\$14,306,520	77%
Total Fixed Equipment Cost	1,653,000	9%
Land Cost	306,069	2%
Site Preparation Cost	394,000	2%
Fees (Architectural, Consultant, etc.)	981,211	5%
Contingency Reserve	817,676	4%
Legal and accounting fees	10,000	1%
<b>Total Proposed Capital Expenditure</b>	<b>\$18,468,476</b>	<b>100%</b>

The above estimated capital expenditure is proposed for new construction of 105,826 square feet of space at a cost of \$171.53 per square foot (See Attachment 1). The *Means Building Construction Cost Data, 2007 Edition*, does not compare costs of construction for medical office buildings in the state. The proposed project also involves the purchase of fixed equipment.

**B. Method of Financing**

JARMC proposes to finance the capital expenditure of \$18,468,476 from the hospital's cash reserves.

**C. Effect on Operating Cost**

There are no projected revenues and utilization associated with this project. (see Three-Year Projected Operating Statement below):

Jeff Anderson Regional Medical Center Three-Year Operating Statement			
	Year 1	Year 2	Year 3
<b>Revenue</b>			
Patient Revenue:			
Inpatient	\$-0-	\$ -0-	\$ -0-
Outpatient	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
<b>Total Gross Patient Revenue</b>	<b><u>\$ -0-</u></b>	<b><u>\$ -0-</u></b>	<b><u>\$ -0-</u></b>
Charity Care	-0-	-0-	-0-
Deductions	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
<b>Total Deductions</b>	<b><u>\$-0-</u></b>	<b><u>\$-0-</u></b>	<b><u>\$-0-</u></b>
Net Patient Revenue	-0-	-0-	-0-
Other Operating Revenue	\$453,992	\$935,627	\$1,403,368
<b>Total Operating Revenue</b>	<b><u>\$453,992</u></b>	<b><u>\$935,627</u></b>	<b><u>\$ 1,403,368</u></b>
<b>Expenses</b>			
Operating Expenses:			
Salaries	-0-	-0-	-0-
Benefits	-0-	-0-	-0-
Supplies	-0-	-0-	-0-
Services	\$53,462	\$112,288	\$117,902
Depreciation	\$534,785	\$534,785	\$534,785
Interest	-0-	-0-	-0-
Other	<u>\$287,747</u>	<u>\$464,497</u>	<u>\$491,095</u>
<b>Total Expenses</b>	<b><u>\$875,994</u></b>	<b><u>\$1,111,570</u></b>	<b><u>\$1,143,782</u></b>
<b>Net Income (Loss)</b>	<b><u>\$ (422,002)</u></b>	<b><u>\$ (175,943)</u></b>	<b><u>\$ 259,586</u></b>
<b>Utilization</b>			
Inpatient Day	-0-	-0-	-0-
Outpatient Day	-0-	-0-	-0-
Charge Per Outpatient Day	-0-	-0-	-0-
Charge Per Inpatient Day	-0-	-0-	-0-
Cost Per Outpatient Day	-0-	-0-	-0-
Cost Per Inpatient Day	-0-	-0-	-0-

**D. Cost to Medicaid/Medicare**

According to the applicant, the proposed project is for the construction, renovation,

and expansion of a medical office building, and will not involve inpatient care. Therefore, it will not have any effect on third party payors.

<b>Patient Mix by Type Payer</b>	<b>Utilization Percentage</b>	<b>First Year Expenses</b>
Medicaid	-0-	\$ -0-
Medicare	-0-	-0-
Other	-0-	-0-
<b>Total</b>	<b><u>-0-</u></b>	<b><u>\$ -0-</u></b>

**V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES**

The Division of Medicaid was provided a copy of this application for review and comment. However, no comments were received.

**VI. CONCLUSION AND RECOMMENDATION**

This project is in substantial compliance with the criteria and standards for construction, renovation, expansion, capital improvements, replacement, and the addition of hospital beds as contained in the *FY 2007 State Health Plan*; the *Mississippi Certificate of Need Review Manual, Revised November 12, 2006*; and duly 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 Jeff Anderson Regional Medical Center for construction, renovation, and expansion of a medical office building.

**Attachment 1**

**Jeff Anderson Regional Medical Center  
 Expansion of MOB**

**Computation of Construction and Renovation Cost**

<u>Cost Component</u>		<u>Total</u>	<u>New Constructon</u>	<u>Renovation</u>
A	New Construction Cost	\$14,306,520	\$14,306,520	\$0
B	Renovation Cost	\$0	\$0	\$0
C	Total Fixed Equipment Cost	\$1,653,000	\$1,653,000	\$0
	Total Non-Fixed Equipment Cost	\$0	\$0	\$0
	Capital Improvement	\$0	\$0	\$0
	Land Cost	\$306,069	\$306,069	\$0
D	Site Preparation Cost	\$394,000	\$394,000	\$0
E	Fees (Architectural, Consultant, etc.)	\$981,211	\$981,211	\$0
F	Contingency Reserve	\$817,676	\$817,676	\$0
G	Capitalized Interest	\$0	\$0	\$0
	<b>Total Proposed Capital Expenditure</b>	<b>\$18,458,476</b>	<b>\$18,458,476</b>	<b>\$0</b>

Square Footage	<b>105,826</b>		0
Allocation Percent		<b>100.00%</b>	<b>0.00%</b>

<b>Costs Less Land, Non-Fixed Eqt. &amp; Cap. Improvement</b>	<b>\$18,152,407</b>	<b>\$18,152,407</b>	<b>\$0</b>
---	---------------------	---------------------	------------

**Cost Per Square Foot** **\$171.53**