

**MISSISSIPPI STATE DEPARTMENT OF HEALTH  
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT  
NOVEMBER 2013**

**CON REVIEW HG-MOB-0913-012  
VICKSBURG HEALTHCARE, LLC  
d/b/a RIVER REGION HEALTH SYSTEM  
CONSTRUCTION OF RIVER REGION MEDICAL OFFICE BUILDING  
CAPITAL EXPENDITURE: \$13,245,099  
LOCATION: VICKSBURG, WARREN COUNTY, MISSISSIPPI**

**STAFF ANALYSIS**

**I. PROJECT SUMMARY**

A. Applicant Information

Vicksburg Healthcare, LLC d/b/a River Region Health System, is comprised of River Region Medical Center, River Region West Campus, The Street Clinic, Family Medicine Clinic and One Medical Plaza. River Region Medical Center is a 372-bed, limited liability, acute care hospital based at 2100 Highway 61 N. in Vicksburg, Warren County, Mississippi. The licensed bed complement consists of 261 general acute care beds, 40 adult psychiatric beds, 28 adult chemical dependency beds, 12 adolescent chemical dependency beds and 31 long-term care beds that are temporarily de-licensed. The facility also holds an outstanding Certificate of Need (CON) for 20 adolescent psychiatric beds.

River Region Health System is owned by Community Health Systems of Franklin, Tennessee and is qualified to do business in the State of Mississippi. The facility is accredited by the Joint Commission and has three directors and five officers.

The occupancy rates, average lengths of stay (ALOS), and the Medicaid utilization rates for River Region Health System are as follows:

**River Region Health System  
Utilization Data**

<b>Fiscal Year</b>	<b>Occupancy Rate (%)</b>	<b>ALOS (Days)</b>	<b>Medicaid Utilization Rate (%)</b>
2010	45.26	4.76	27.46
2011	43.40	4.90	27.46
2012	43.32	4.96	26.48

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

**B. Project Description**

Vicksburg Healthcare, LLC, d/b/a River Region Health System (River Region), requests Certificate of Need (CON) authority to construct, on its hospital campus, a medical office building (the "MOB") financed and owned by a non-affiliated third party, CCI Vicksburg MOB, LLC, a wholly owned subsidiary of The Cornerstone Companies, Inc. ("Cornerstone"). CCI Vicksburg MOB, LLC, an Indiana limited liability company, was created for the sole purpose of owning the MOB. CCI Vicksburg MOB, LLC is registered to do business in the State of Mississippi. River Region owns the real property on which the MOB will be constructed.

River Region proposes to execute a lease agreement with CCI Vicksburg MOB, LLC for use of the MOB. River Region will relocate physician office space and outpatient therapy services to the MOB. River Region is also considering offering MRI services in the MOB.

The three-story MOB will comprise approximately 66,812 square feet of space. The second and third floors of the MOB will be dedicated to physician office space for River Region-employed physicians whose offices currently are located in other clinic settings. The first floor will house therapy services and a permanent MRI machine. The following outpatient physician services are proposed to be provided in the new MOB: orthopedics, neurology, rheumatology, gastroenterology, pulmonology, pain management, urology, obstetrics/gynecology, and primary care. The MOB will also have approximately 290 parking spaces.

The applicant's final objectives for the project include the following:

1. Relocate existing outlying physician practices closer to the main hospital campus in a new proposed medical office building.
2. Relocate Outpatient Therapy department from current off-campus location to a suite within the new proposed building.
3. Offer Outpatient MRI services in a new MRI unit in the new proposed building.

The applicant does not expect the project to require additional staffing as current personnel will relocate to the new MOB.

The total proposed capital expenditure is \$13,245,099, at an estimated cost of \$129.59 per square foot (See Expenditure Summary for complete percentage breakdown of project). The applicant projects that the capital expenditure will be obligated immediately after approval of the CON and the project is expected to be complete by March 2015.

The applicant indicates the proposed capital expenditure will be funded with a commercial construction loan obtained by CCI Vicksburg MOB, LLC.

The MSDH Division of Health Facilities Licensure and Certification has approved the site for the MOB project, as proposed.

## II. TYPE OF REVIEW REQUIRED

This project is reviewed in accordance with Section 41-7-173, 41-7-191 (1)(j), and 41-7-193 of the 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 9, 2013.

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

### A. State Health Plan (SHP)

The *FY2013 State Health Plan* contains criteria and standards which the applicant is required to meet before receiving CON authority for construction, renovation, and expansion. This application is in substantial compliance with the applicable criteria stated in the *Plan as follows*:

#### **SHP Criterion 1 - Need**

##### **Projects which do not involve the addition of any acute care beds.**

River Region proposes the construction of a MOB on the River Region hospital campus to be financed and owned by a non-affiliated third party, CCI Vicksburg MOB, LLC a wholly owned subsidiary of The Cornerstone Companies, Inc. River Region owns the real property on which the MOB will be constructed. The new MOB will provide for consolidation of physician offices and outpatient therapy services and, according to the applicant, assist in attracting new physicians.

The applicant submits that currently, River Region operates several offsite physician practices across several specialties and subspecialties. According to the applicant, most of the offsite practices are located several miles from the hospital campus. The

proposed project will corral these distant offsite locations and relocate them closer to the hospital's main campus in a state of the art MOB. The MOB will house two ancillary departments - Outpatient Therapy and Outpatient MRI services. The hospital currently owns one MRI unit and proposes to purchase a second unit to be housed in the MOB.

According to the applicant, River Region primarily serves residents of Vicksburg and Warren counties and is an essential medical provider for residents of Claiborne County, Issaquena County, western Hinds County and three parishes in eastern Louisiana – a population of over 85,000. The applicant states that this area suffers from high poverty rates ranging from 22.4% in Warren County to 40.8% in east Carroll Parrish, Louisiana. Consequently, the area tends to have disproportionately high rates of adverse health care conditions, such as asthma, diabetes, hypertension, mental health disorders and heart disease, along with high rates of stroke and trauma. In addition, many residents of the area do not have the means to travel far to obtain much-needed health care services. River Region believes that a state-of-the-art MOB will offer patients an excellent facility for outpatient services and will improve efficiencies in the delivery of services.

**SHP Criterion 5 – Charity/Indigent Care**

River Region affirms that it does and will continue to provide a reasonable amount of indigent/charity care.

Fiscal Year	Medically Indigent/Charity Care (\$)	Medically Indigent/Charity Care (%)
Fiscal Year 2011	\$12,875,346	1.98%
Fiscal Year 2012	\$15,723,340	2.15%
Projected Year 1	\$16,181,207	2.14%
Projected Year 2	\$17,788,079	2.14%

**SHP Criterion 6 – Reasonableness of Cost**

The cost of the MOB project is \$129.59 per square foot and does not exceed the median construction costs for similar new MOB construction projects by more than 15%.

**SHP Criterion 7 – Floor Area and Space Requirements**

The gross square footage of the proposed project is 66,812 square feet. The applicant states that given the services offered and the physician office space requirements for the multiple clinics practicing in the MOB, the square footage compares favorably to similar projects in Mississippi and across the United States.

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

Chapter 8 of the *Mississippi Certificate of Need Review Manual, Revised September 1, 2011*; addresses general criteria by which all CON applications are reviewed. This application is in substantial compliance with general review criteria contained in the manual.

**GR Criterion 1- Consistency with the *State Health Plan***

The project is in substantial compliance with all criteria, standards, and policies of the *FY 2013 Mississippi State Health Plan* applicable to the construction, renovation, and expansion projects.

**GR Criterion 2 – Long Range Plan**

The applicant states that its long range plan is to continue to provide high quality outpatient physician practice services and ancillary services in the most efficient and cost-effective manner. The proposed project is consistent with these long range plans, according to the applicant.

**GR Criterion 3 – Availability of Alternatives**

The applicant states that the only alternative considered was to keep the outlying physician practices in their current locations. The aging building and accompanying aging aesthetics of the current spaces, along with the increasing operating expense requirements to own and maintain the old buildings made this alternative less attractive.

The applicant states that modernization of existing facilities was considered; however, due to the inconvenient location aspect of the existing facilities, along with the expense of modernization, the modernization of existing facilities alternative is not feasible.

**GR Criterion 4 - Economic Viability**

The applicant asserts that charge structure will not change with this new project nor do they expect the burden of additional healthcare costs on the healthcare delivery system. Projected levels of utilization are not expected to change because the project is for construction of a MOB.

River Region states that the project is financially feasible and will likely meet or exceed their expectations for improving the delivery of health care services and improving efficiencies. However, in the event that the project fails to meet

expectations, the applicant states that Vicksburg Healthcare, LLC is diversified enough to cover any shortfalls.

The application contained a letter from the hospital's financial analyst attesting to the financial feasibility of the project.

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

- a. **Access by Population Served:** The applicant states that the added convenience of having a new building in close proximity to the hospital's main campus, with the building adhering to all building safety and ADA codes, will enable it to continue to offer high quality care conveniently to its patients. This project is expected to reduce the obstacles for low income patients to receive services due to the close proximity to the hospital's main campus array of diagnostics and ancillary services as well as acute, inpatient care.
- b. **Relocation of Services:** The current medical offices housing employed physicians are older and in need of repair. The applicant states that the most likely scenario is that the facility farthest from the hospital's main campus will be closed and sold, while those closest to the hospital's main campus will be renovated and occupied with physician offices.
- c. **Community Reaction:** The application contains four letters of support from the Mayor, City of Vicksburg; Physician Practices of River Region; Law Offices; and the Vice President of Medical Affairs.

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

- a. **Medically Underserved Population:** River Region affirmed that all residents of the health planning service area, including Medicaid recipients, charity/medically indigent patients, racial and ethnic minorities, women, handicapped persons and the elderly have access to the services of the existing facilities and will continue to have access to the Hospital. The applicant states that reduced travel time, coordinated appointments for ancillary services at the main campus, increased responsiveness of physicians to patients in the hospital due to the close proximity are all expected to be enhancements to the current services provided to underserved populations.
- c. **Unmet Needs to be Served by Applicant:** The applicant submits that the close proximity of the new proposed building to the hospital main campus is expected to make the delivery of health care to all populations more efficient.

### **GR Criterion 7 - Information Requirement**

River Region 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 asserts that the close proximity of the medical office building to the hospital's main campus will complement existing services and promote efficient and economical delivery of healthcare services.

Because no new services will be offered as a result of this project, staff concludes that this project would have no adverse affect on other providers in the referenced service area.

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

### **GR Criterion 9 - Availability of Resources**

No new personnel are required by the project. CCI Vicksburg MOB, LLC will own the MOB; however, the facility is constructed on behalf of River Region which will lease the facility from CCI Vicksburg MOB, LLC.

### **GR Criterion 14 - Construction Projects**

- a. **Cost Estimate:** The application contains a cost estimate prepared by a professional corporation, licensed to do business in Mississippi.
- b. **Schematic Drawing:** The application contains a schematic drawing of the proposed project.
- c. **Space Allocations:** The applicant submits that space will conform to applicable local and state licensing standards.
- d. **New Construction Projects:** This project involves 66,812 square feet of new construction.
- e. **Cost per Square Foot:** The applicant estimates the cost of new construction to be \$129.50 per square foot (see Attachment 2). The *Means Building Construction Cost Data, 2013, Edition*, lists new construction costs for medical offices ranging from \$118 (where 20% of projects cost less) to \$180 (where 25% of projects cost more) per square foot.

**GR Criterion 16 - Quality of Care**

River Region Health System is in compliance with the *Minimum Standards for the Operation of Mississippi Hospitals*, according to the Division of Health Facilities Licensure and Certification, MSDH. The facility is accredited by the Joint Commission and certified for participation in the Medicare and Medicaid programs.

**IV. FINANCIAL FEASIBILITY**

**Capital Expenditure Summary**

The total estimated capital expenditure is allocated as follows:

	Item	Cost (\$)	Percent (%) of Total
a.	Construction Cost -- New	\$6,535,001	49.34
b.	Construction Cost -- Renovation	0	0
c.	Capital Improvements	4,130,218	31.18
d.	Total Fixed Equipment Cost	0	0
e.	Total Non-Fixed Equipment Cost	0	0
f.	Land Cost	0	0
g.	Site Preparation Cost	1,200,461	9.06
h.	Fees (Architectural, Consultant, etc.)	420,000	3.17
i.	Contingency Reserve	353,000	2.67
j.	Capitalized Interest	150,000	1.13
j.	Legal and accounting fees	10,000	.08
k.	Other	446,419	3.37
	<b>Total Proposed Capital Expenditure</b>	<b><u>\$13,245,099</u></b>	<b><u>100.00</u></b>

The above capital expenditure is proposed for construction of a new medical office building. The proposed project involves approximately 66,812 square feet of new space at an estimated cost of \$129.59 per square foot (see Attachment 2). The costs for projects listed in *The Means Building Construction Cost Data, 2013 Edition*, ranged from \$118 to \$180 per square foot, with a median cost of \$147 per square foot.

The application contains a letter signed by the Chief Financial Officer, attesting to the financial feasibility of the project.

**B. Method of Financing**

The applicant proposes to finance the proposed capital expenditure with a commercial construction loan obtained by CCI Vicksburg MOB, LLC. River Region will lease the building from CCI Vicksburg MOB, LLC.

**C. Effect on Operating Cost**

The Hospital's three-year projected operating statement is presented at Attachment 1.

**D. Cost to Medicaid/Medicare**

The applicant projects the cost to third party payors as follows:

<b>Payor Mix</b>	<b>Utilization Percentage (%)</b>	<b>First Year Revenue (\$)</b>
<b>Medicare</b>	*44	\$ 339,773,592
<b>Medicaid</b>	18	143,295,881
<b>Commercial</b>	29	228,608,501
<b>Self Pay</b>	5	38,584,341
<b>Charity Care</b>	2	16,781,207
<b>Other</b>	<u>2</u>	<u>16,638,918</u>
<b>Total</b>	<b>100</b>	<b>\$ 783,682,440</b>

\*Percentage does not calculate due to rounding.

**V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES**

The Division of Medicaid was provided a copy of this application for review and comment. Effective September 1, 2012, the Division of Medicaid changed the methodology by which outpatient services are reimbursed so that the cost incurred subsequent to that date will no longer affect outpatient payments. Also, effective October 1, 2012, the Division changed the methodology by which it reimburses inpatient services so that the cost incurred subsequent to that date will only affect cost outlier payments.

## **VI. CONCLUSION AND RECOMMENDATION**

This project is in substantial compliance with the criteria and standards for construction, renovation, expansion, or capital improvements involving a capital expenditure in excess of \$2,000,000 contained in the *FY 2013 Mississippi State Health Plan*; the *Mississippi Certificate of Need Review Manual, 2010 Revision*; 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 the application submitted by Vicksburg Healthcare, LLC, d/b/a River Region Health System for the construction of River Region Medical Office Building.

### Attachment 1

Vicksburg Healthcare, LLC d/b/a River Region Health System Three-Year Operating Statement (with Project)			
	Year 1	Year 2	Year 3
<b>Revenue</b>			
Patient Revenue:			
Inpatient	\$ 484,968,135	\$ 517,498,553	\$ 548,548,467
Outpatient	298,714,305	316,936,669	335,952,869
<b>Gross Patient Revenue</b>	<b>\$ 783,682,440</b>	<b>\$ 834,435,222</b>	<b>\$ 884,501,336</b>
Charity Care	\$ 16,781,207	17,788,079	18,855,364
Deductions from Revenue	599,923,955	646,310,171	691,535,576
<b>Net Patient Revenue</b>	<b>\$ 166,977,278</b>	<b>\$ 170,336,972</b>	<b>\$ 174,110,396</b>
Other Operating Revenue	\$ 1,811,357	\$ 1,849,084	\$ 1,887,565
<b>Total Operating Revenue</b>	<b>\$ 168,788,635</b>	<b>\$ 172,186,056</b>	<b>\$ 175,997,961</b>
<b>Expenses</b>			
Operating Expenses:			
Salaries	\$ 59,144,707	\$ 60,329,451	\$ 61,534,190
Benefits	11,628,603	11,863,025	12,098,436
Supplies	19,831,065	20,327,847	20,935,832
Services	10,602,205	10,710,077	10,915,328
Lease	1,689,944	1,725,593	1,758,255
Depreciation	7,550,058	7,778,409	8,119,911
Interest	101,853	102,722	103,215
Other	25,230,613	25,737,075	26,249,967
<b>Total Expenses</b>	<b>\$ 135,779,048</b>	<b>\$ 138,574,199</b>	<b>\$ 141,715,134</b>
<b>Net Income (Loss)</b>	<b>\$ 33,009,587</b>	<b>\$ 33,611,857</b>	<b>\$ 34,282,827</b>
<b>Assumptions</b>			
Inpatient days*	54,854	55,401	56,025
Outpatient days*	199,026	201,016	203,028
Procedures	221,543	224,309	227,346
Charge/outpatient day	\$ 1,501	\$ 1,577	\$ 1,655
Charge per inpatient day	\$ 8,841	\$ 9,341	\$ 9,791
Charge per procedure	\$ 3,537	\$3,720	\$3,891
Cost per inpatient day	\$ 2,475	\$ 2,501	\$ 2,529
Cost per outpatient day	\$ 682	\$ 689	\$ 698
Cost per procedure	\$ 613	\$ 618	\$ 623

## Attachment 2

### Vicksburg Healthcare, LLC d/b/a River Region Health System Computation of Construction and Renovation Cost

<u>Cost Component</u>	<u>Total</u>	<u>New Construction</u>	<u>Renovation</u>
New Construction Cost	\$6,535,001	\$6,535,001	
Renovation Cost	\$0	\$0	\$0
Total Fixed Equipment Cost	\$0	\$0	
Total Non-Fixed Equipment Cost	\$0		
Capital Improvement	\$4,130,218		
Legal & Accounting Fees	\$10,000		
Other	\$446,419		
Land Cost	\$0	\$0	
Site Preparation Cost	\$1,200,461	\$1,200,461	
<i>Fees (Architectural, Consultant, etc.)</i>	\$420,000	\$420,000	\$0
<i>Contingency Reserve</i>	\$353,000	\$353,000	\$0
<i>Capitalized Interest</i>	\$150,000	\$150,000	\$0
<b>Total Proposed Capital Expenditure</b>	<b>\$13,245,099</b>	<b>\$8,658,462</b>	<b>\$0</b>

Square Footage	<b>66,812</b>	66,812	0
<i>Allocation Percent</i>		100.00%	0.00%

<b>Costs less Capital Improvement, Legal &amp; Accounting Fees &amp; Other</b>	<b>\$8,658,462</b>	<b>\$8,658,462</b>	<b>\$0</b>
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<b>Cost Per Square Foot</b>	<b>\$198.24</b>	<b>\$129.59</b>	
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Source: FY 2013 Mississippi State Health Plan