

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

**CON Review HG-RC-0604-027  
Jeff Anderson Regional Medical Center, Meridian  
Construction/Renovation of Medical Office Building  
Capital Expenditure: \$2,582,412  
Location: Meridian, Lauderdale County, Mississippi**

**STAFF ANALYSIS**

**I. PROJECT SUMMARY**

**A. Applicant Information**

Jeff Anderson Regional Medical Center, hereinafter referred to as "JARMC", is a short-term general acute-care, medical/surgical hospital. The hospital operates as a 260-bed, not-for-profit, tax exempt facility, located in Meridian, Lauderdale County, Mississippi. JARMC offers a wide range of general acute care services accompanied by a full medical staff to operate each department in the hospital. Services range from major surgery to vascular surgery. JARMC provided documentation demonstrating that the hospital was issued a Non-Profit Charter of Incorporation on August 6, 1947. Also, JARMC filed a certificate showing that it was issued a Non-Profit Charter of Incorporation with the Office of the Secretary of State on February 1, 1994, and is presently governed by a six-member Board of Trustees. The application includes a copy of the Warranty Deed to verify that JARMC owns the land that the hospital occupies. The facility has been certified to participate in the Medicare and Medicaid programs, and will participate with the Joint Commission on Accreditation of Healthcare Organizations (JCAHO). The facility is licensed by the Mississippi State Department of Health.

JARMC is set-up and staffed at its licensed capacity of 260 beds. The occupancy rates, average length of stay (ALOS), and Medicaid utilization rate for the three most recent years are as follows:

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate
2001	51.02	5.61	8.23
2002	57.59	5.26	10.70
2003	58.16	5.26	10.79

**B. Project Description**

The applicant requests Certificate of Need (CON) authority for the expansion of an existing medical office building (MOB). The expansion will require 10,560 square feet of new construction and 4,176 square feet of renovation. The proposed project will not involve the relocation, expansion, or the establishment of any new institutional health service. Nor will the project alter the bed capacity of JARMC. More specifically, JARMC proposes to expand its capacity to provide appropriate medical office space for its staff physicians by adding an additional floor to an existing MOB located adjacent to the hospital. The applicant asserts that the project will accommodate the existing shortage of medical office space as well as provide normal growth in the immediate future.

The applicant anticipates the capital expenditure for this project will be obligated within 30 days of CON approval. Completion of the project is expected within twelve months thereafter. The projected cost of the total project is \$2,582,412. The majority of the cost will center

around construction and renovation at \$1,687,668 and \$626,400, respectively. The remainder of the cost will involve site preparation cost, fees, and contingency reserve at \$75,000, \$143,344, and \$50,000, respectively. The cost per square foot will be \$175.25. The proposed site has been approved by the Division of Health Facilities Licensure and Certification.

The public and affected parties were offered an opportunity to comment on this proposal by the August 25, 2004, deadline. No written comments were received.

## II. TYPE OF REVIEW REQUIRED

This application for the construction of a medical office space is reviewed 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 Mississippi State Department of Health.

This application was deemed complete on July 26, 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 September 16, 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 the construction of medical office space. As previously stated, this proposal is to expand an existing medical office building on the campus of Jeff Anderson Regional Medical Center. The MOB will be a two-story modern building consisting of approximately 10,560 gross square feet of new construction.

### 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

The applicant states that Jeff Anderson Regional Medical Center could refrain from constructing the medical office building. However, this would not alleviate the critical shortage of medical office space in the vicinity of the hospital. The MOB will improve convenience to both patients and the doctors, as well as referral to the hospital.

#### 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 \$175.25 is within the range of the construction cost of similar projects reviewed recently by the Mississippi State Department of Health. Since September 21, 1998, the cost per square foot of new construction of approved medical office buildings ranged from a low of \$118.00 at Northwest Mississippi Regional Medical Center, Clarksdale, to a high of \$239.37 at Biloxi Regional Medical Center.

The hospital's three-year financial feasibility study indicates that the facility has the financial capability to assure the completion of this proposal. The current and projected operating expenses for the first full year of operation of the proposed project are as follows:

Current and Projected Operating Expense  
 Jeff Anderson Regional Medical Center  
 Renovation, Construction, and Expansion of Medical Office Building

	Total Current Cost	Total Projected Cost	Project Only Change in Cost (+, -)
Salaries and wages	\$ 39,727,198.00	\$ 39,727,198.00	---
Fringe Benefits	8,229,221.00	8,229,221.00	---
Housekeeping	1,704,270.00	1,719,006.00	+ \$14,736.00
Pharmacy and Supplies	30,159,802.00	30,159,802.00	---
Plant Operations and Maintenance	3,367,211.00	3,401,683.000	+ \$34,472.00
General and Administrative	17,078,259.00	17,094,259.00	+ \$16,000.00
Depreciation Cost	9,125,217.00	9,199,000.00	+ \$73,783.00
Bad Debts and Charity	<u>16,161,324.00</u>	<u>16,161,324.00</u>	---
<b>Total</b>	<u>\$125,552,502.00</u>	<u>\$125,691,493.00</u>	<u>+ \$138,991.00</u>

**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 nil. Lack of available medical office space hinders physician growth opportunities and the recruitment of needed physicians, particularly primary care physicians needed to improve access to health care. Jeff Anderson Regional Medical Center is a regional referral center for east-central Mississippi and west-central Alabama. As such, it is imperative that JARMC maintains adequate professional personnel to offer primary, secondary, and tertiary services for residents of its medical trade area.

The applicant contends that, in addition to the lack of space, physicians in the area are responding to market forces to reduce the cost of care, and through group formation are trying to reduce overhead costs and increase practice efficiency. Appropriate medical office space for these types of activities is not available in the proposed project area.

**GR Criterion 6 - Accessibility**

Jeff Anderson Regional Medical Center serves all populations, 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 to 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 JARMC 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	\$1,687,668
Renovation	626,400
Site Preparation	75,000
Fees	143,344
Contingency Reserve	<u>50,000</u>
<b>Total Expenditure</b>	<b><u>\$2,582,412</u></b>

The proposed capital expenditure is for 10,560 square feet of new construction and the renovation of 4,176 square feet of the medical office building at a cost of \$175.25 per square foot for new construction. The *2004 Means Building Construction Cost Data* lists the median cost for medical offices at \$83.00 per square foot and the high cost at \$135.00 per square foot for new construction. *Means* does not provide cost per square foot renovation cost for medical clinics. However, the proposed project has a cost similar to the cost of similar facilities approved by MSDH.

Since September 21, 1998, the cost per square foot of new construction of approved medical office buildings ranged from a low of \$118.00 at Northwest Mississippi Regional Medical Center, Clarksdale, to a high of \$239.37 at Biloxi Regional Medical Center.

##### B. Method of Financing

The applicant proposes to finance this project through operational funds of Jeff Anderson Regional Medical Center.

##### C. 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.

##### D. Effect on Operating Cost

As demonstrated on page three of this Staff Analysis, the only increase in operating cost resulting from the completion of this project will be in the areas of housekeeping, plant operation and management, general and administrative, and depreciation cost.

#### 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 on the campus of Jeff Anderson Regional Medical Center.