

**DIVISION OF HEALTH PLANNING
AND RESOURCE DEVELOPMENT
NOVEMBER 2005**

**CON REVIEW FSF-MOB-0905-035
THE MEDICAL TOWERS AT TUSCAN COURT, LLC
CONSTRUCTION OF A MEDICAL OFFICE BUILDING
CAPITAL EXPENDITURE: \$3,812,801
LOCATION: MAGEE, SIMPSON COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

The Medical Towers at Tuscan Court, LLC (MTTC) is a for-profit, proprietary, limited liability corporation authorized to do business in the state of Mississippi. On August 4, 2005, MTTC received a Certificate of Existence/Authority from the Secretary of State's Office indicating the facility is in good standing with the State of Mississippi.

The company has four corporate officers and is presently governed by a five-member board. The Medical Towers at Tuscan Court is not a hospital or healthcare facility; however it will offer rental space to physicians and other healthcare providers.

B. Project Description

The Medical Towers at Tuscan Court, LLC requests Certificate of Need (CON) authority to construct a medical office building totaling 48,000 square feet of space. The building will be constructed on 31,000 square feet of land owned by Magee Benevolent Association d/b/a Magee General Hospital (MGH). The land is situated next to the existing hospital in General Hospital Service Area (GHSA) 3 and the address will be 300 Third Avenue Southeast, Magee, Mississippi 39111. According to schematic drawings provided by the applicant, the office building will consist of three floors and the tower will serve as the penthouse suite.

The applicant states that the project entails extensive site development, landscaping the property, and the addition of 240 new parking spaces.

A letter from the architect verifies the estimated cost to construct 48,000 square feet of new space is \$79.43 per square foot. The applicant notes that MGH will pay site preparation costs. No renovation or purchase of new equipment is involved with this project; however, MTTC documents that the total non-fixed equipment cost is \$100,000. The amount will be used to purchase furniture, fixtures, and art designs for each lobby throughout the structure.

The applicant includes in the application a capital expenditure summary, a three-year projected operating statement, and a financial feasibility statement. The applicant states that they will not hire staff; however healthcare providers will staff their office according to who they will need. The company received site approval from the Mississippi Department of Health, Division of Licensure and Certification.

To fund the project, MTTC will obtain a commercial loan of \$3,812,801 from a local bank. Three Magee bank institutions have expressed interest in financing the loan for 15 years at an interest rate of 7.18 percent. The project will be completed in one phase by the end of eleven months. Upon approval of the project, the capital expenditure will be obligated within three months.

II. TYPE OF REVIEW REQUESTED

The Mississippi Department of Health reviews applications for construction and renovation 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 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 December 5, 2005.

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

A. State Health Plan (SHP)

The *FY 2006 State Health Plan* contains criteria and standards which the applicant is required to meet before receiving CON authority for construction, renovation, expansion, capital improvements, replacement of health care facilities, and addition of hospital beds. However, the Plan does not address criteria and standards for the construction of a medical office building. The proposed project is for the construction of a medical office building by The Medical Towers at Tuscan Court, LLC on the campus of Magee Benevolent Association d/b/a Magee General Hospital.

SHP Criterion 1- Need

The Medical Towers at Tuscan Court states that many physicians have provided healthcare to residents in Magee, Mississippi, since 1940. Since a large number of healthcare providers are seeing patients on the campus of MGH, the volume of patients is steadily increasing while space in each waiting area is dwindling. The applicant points out that visiting specialists and patients are not located and seen in one centralized location; lobby areas are too small; and exam rooms are restricting. These issues complicate registration, cause waiting areas to be over crowded, limit patient access to providers, and create maneuvering problems for patients who need healthcare apparatuses to move about.

With this in mind, the applicant states that physicians who will be future MTTC tenants see a combined average of 125 patients per day and that number does not include other specialty doctors seeing patients at MGH. The applicant believes that the number of healthcare providers recruited in the Magee area (GHSA 3) is outnumbering office space available to these providers. The Medical Towers at Tuscan Court documents that the occupancy rate for medical office space in the Magee area currently exceeds 100 percent. The applicant provided 11 signed commitment letters from physicians stating they will lease office space from MTTC for \$12 per square foot for five years. Based on these facts, the applicant contends that a medical office building should be erected to accommodate healthcare providers and the patients.

The applicant affirms that MTTC is not adding additional acute care beds or services nor will they participate in the state's trauma system as a provider. Thus, this project will not have an adverse impact on existing facilities in GHSA 3.

SHP Criterion 2 - Bed Service Transfer/Reallocation/Relocation

The applicant asserts that this project does not involve transfer/reallocation/relocation of beds to another facility within GHSA 3; thus, this criterion is not applicable to the proposed project.

SHP Criterion 3 - Charity/Indigent Care

The proposed project does not involve constructing a hospital or providing new healthcare services; however, the applicant affirms that healthcare providers who will lease medical office space will not limit access to care based on the ability to pay.

SHP Criterion 4 - Cost of Proposed Project

The applicant estimates the cost to construct a medical office building totaling 48,000 square feet of space is \$79.43 per square foot. The Medical Towers at Tuscan Court states in the CON application that the project does not exceed the

median construction cost of \$110 for medical office building construction projects in the state of Mississippi. Based on the *Building Construction Cost Data FY 2005*, staff contends the proposed project is below the median construction cost of \$110.

SHP Criterion 5 - Floor Area and Space Requirements

The applicant asserts the proposed project is comparable to both state and national norms for similar projects.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, 2000 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 (SHP)

The *FY2006 Mississippi State Health Plan* 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.

GR Criterion 2 - Long Range Plan

The applicant states the long range development plan of MTTC is to provide patients adequate access to physicians in order to deliver quality healthcare to residents in GHSA 3.

GR Criterion 3- Availability of Alternatives

The applicant considered two alternatives: allowing patients to continue visiting their physicians at MGH and renovating current medical office space; however, both alternatives were rejected. The current arrangements are inadequate, offer inefficient access to doctors for consultations/appointments, and pose safety hazards to patients due to the high volume of traffic in the corridors. The second alternative would prove to cost an estimated \$6 million. The applicant submits that constructing a new medical office building would be the only cost effective option available to meet their long range goals.

GR Criterion 4 - Economic Viability

Based on revenue listed in the three-year operating statement, the applicant's Chief Financial Officer submitted a letter stating that the project will be financially feasible. Since this project involves constructing a medical office building, the applicant affirms that the proposed project will not require charges or costs for healthcare

services nor do they project any utilization statistics. However, MTTC states the property lease rate is comparable to other medical office rental properties in GHSA 3.

GR Criterion 5 - Need for the Project

The applicant affirms that all residents of GHSA 3, including low income persons, racial and ethnic minorities, women, handicapped persons, and other underserved groups, and the elderly currently have access to all services provided by the physicians and/or healthcare providers who will occupy the medical office building. The applicant expects that these groups will continue to have access to the building after the completion of the project.

The applicant states there is a need to build a new medical office building in order to centralize patients and doctors in designated areas. Currently, MGH physicians and visiting specialists are dispersed throughout the hospital and in current medical office space on the hospital's campus. This lack of centralization poses the following problems for patients: it hinders patients from moving about the facilities freely; the maze-like office locations cause confusion for some patients; the registration process has become complicated; waiting areas have become overcrowded; and the confined areas and exam rooms are demanding on patients with mobility equipment.

By constructing a new medical office building and reorganizing medical offices, the applicant feels the proposed project will provide patients with quality service and better access to doctors on the hospital's campus. Also, the applicant feels the proposed project will attract more physicians, specialists, and other healthcare providers to the Magee area. In turn, the completion of this project will enhance the healthcare system in GHSA 3.

The applicant asserts this project does not involve relocating the facility or service; thus, current and projected utilization of like facilities or services within GHSA 3 is not applicable to this criterion.

The Medical Towers at Tuscan Court is not adding additional beds or services; the applicant affirms this project will not have an adverse impact on existing facilities in GHSA 3.

Twenty-three endorsement letters from various community officials were included in the CON application dated September 7, 2005. According to the applicant, the community officials recognize that the MTTC complies with all federal regulations regarding community service and supports MTTC's efforts to serve all patients in GHSA 3 regardless of race, creed, sex, or ability to pay.

GR Criterion 6 – Access to the Facility or Service

The Medical Towers at Tuscan Court states that the physicians located in the medical office building will serve all patients in GHSA 3 without respect to race, color, age, sex, ethnicity, or ability to pay.

GR Criterion 7- Information Requirement

The Medical Towers at Tuscan Court affirms they will record and maintain the information required by this criterion and shall make the data available to the Mississippi Department of Health within fifteen (15) business days of request.

GR Criterion 8 - Relationship to Existing Health Care System

The applicant states that MTTC is constructing a medical office building and through the existing physicians, will continue to provide quality care to the community. The applicant asserts this project will not have an adverse impact on existing facilities in GHSA 3.

GR Criterion 9 - Availability of Resources

The applicant states that MTTC will not employ staff; thus, this criterion is not applicable to the proposed project.

GR Criterion 10 - Relationship to Ancillary or Support Services

The applicant asserts that the project is not expected to have an adverse effect upon the delivery of ancillary health services.

GR Criterion 11- Health Professional Training Programs

The applicant asserts MTTC is not providing healthcare services and states that MTTC will not have an adverse effect upon the health professional training programs in GHSA 3.

GR Criterion 12- Access by Health Professional Schools

The Medical Towers at Tuscan Court does not intend to provide healthcare services, thus, this criterion is not applicable to the proposed project.

GR Criterion 14 - Construction Projects

The MTTC Board of Directors took appropriate action to apply for a CON in the amount of \$3,812,801. The architect submitted a cost estimate to show a proposed capital expenditure of \$3,812,801 and the applicant notes that MGH will pay site preparation costs. The application includes an approval letter from the Division of Health Facilities Licensure and Certification. The applicant includes schematic drawings to show how the medical office building will look after the construction process has been completed.

In addition, the applicant states that the project complies with state and local building codes, zoning ordinances, and all appropriate regulatory authorities. The applicant has provided written assurance that MTTC will comply with state statutes and regulations for the protection of the environment.

Since the board opted to construct a new medical office building, a formula calculation was used by the applicant to show how much the proposed project will cost per square foot. The applicant states that the cost of constructing 48,000 square feet of new space will be \$79.43 per square foot.

The cost to construct that medical office building is below the \$89 to \$135 range for projects of this size as listed in the book titled *Building Construction Cost Data FY 2005*. According to the *Means Construction Cost Data*, the median cost for a medical office building of this size is \$110 per square foot. Based on the numbers provided by the applicant and the new construction formula listed in the *Plan*, staff contends it will cost \$77.35 per square foot to complete the project. The cost is below the low end of the range for construction costs associated with a medical office building.

GR Criterion 16 - Quality of Care

The applicant is a new entity and has no history of providing healthcare; however, the applicant affirms the physicians who will lease the medical office building will continue to provide quality care to the residents in GHSA 3.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

Cost Item	Projected Cost	% of Total
Construction Cost - New	\$ 3,120,000.00	81.83%
Construction Cost - Renovation	-	0.00%
Capital Improvements	-	0.00%
Total Fixed Equip Cost	-	1.52%
Total Non-Fixed Equip Cost	100,000.00	2.62%
Land Cost	1.00	0.00%
Site Prep Cost	-	0.00%
Fees	280,800.00	7.36%
Contingency Reserve	312,000.00	8.18%
Capitalized Interest	-	0.00%
Other Cost	-	0.00%
Total Proposed Expenditures	\$ 3,812,801.00	100.00%

B. Method of Financing

To fund the project, The Medical Towers at Tuscan Court will obtain a commercial loan of \$3,812,801 from a local bank. Three Magee bank institutions express interest in financing the loan for 15 years at an interest rate of 7.18 percent. A financial feasibility statement and six commitment letters from the investment group demonstrate that MTTC has sufficient initial operating capital to fund the project.

C. Effects on Operating Costs

The applicant projects rental income of \$443,400, \$544,800, and \$570,000 the first, second, and third year of operation, respectively, and expenses of \$549,768, \$542,266, and \$534,216 for the first three years of operation. The applicant projects a first year net loss of (\$106,368) and net income of \$2,534 and \$35,784 in years two and three, respectively. The proposed project involves constructing a medical office building; therefore, utilization, cost, and patient charges are not associated with the proposed project. The applicant included a Three-Year Projected Operating Statement (See Attachment 1).

D. Cost to Medicaid/Medicare

The applicant projects the physicians to see the following patient mix: Medicaid, 15%; Medicare, 60.3%; charity/medically indigent, 3%; and private/commercial pay, 21.7%. Medicaid will not incur any costs associated with the proposed project.

V. RECOMMENDATION OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for comment. According to the Division of Medicaid, outpatient services will be paid as outlined in the *Medicaid Plan*. The Division does not oppose the application.

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 *2006 Mississippi State Health Plan*; Chapter 8 of the *Mississippi Certificate of Need Review Manual, 2000 Revision*; and all adopted rules, procedures, and plans of the Mississippi Department of Health.

The Division of Health Planning and Resource Development recommends approval of this application for the construction of a medical office building submitted by The Medical Towers at Tuscan Court, LLC (MTTC).

ATTACHMENT 1

The Medical Towers at Tuscan Court				
Three Year Operating Statement (project only)				
	2006	Year 1	Year 2	Year 3
Key Statistics:				
Average Daily Census				
Procedures				
Procedures				
Average Length of Stay				
Occupancy Rate				
Charge per procedure				
Cost per procedure				
Profit margin per procedure				
Patient Revenue				
Inpatient Revenue				
Outpatient Revenue				
Charity Care Charges				
Total Patient Revenue	\$ -	\$ -	\$ -	\$ -
Deductions from Revenue				
Charity Care		-	-	-
Contractual Adjustments		-	-	-
Total Revenue Deductions	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net Patient Revenue	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Rental Income	-	443,400	544,800	570,000
Total Revenue	\$ -	\$ 443,400	\$ 544,800	\$ 570,000
Operating Expenses				
Depreciation	-	99,487	99,487	99,487
Interest	134,292	263,281	255,779	247,729
Land Lease	15,000	15,000	15,000	15,000
Property Taxes	-	80,000	80,000	80,000
Insurance	5,000	5,000	5,000	5,000
Repairs	-	40,000	40,000	40,000
Utilities	-	36,000	36,000	36,000
Other	-	11,000	11,000	11,000
Total Operating Expenses	<u>\$ 154,292</u>	<u>\$ 549,768</u>	<u>\$ 542,266</u>	<u>\$ 534,216</u>
Income (Loss) from Operations	\$ (154,292)	\$ (106,368)	\$ 2,534	\$ 35,784
Non-Operating Gain (Loss)	\$ -	\$ -	\$ -	\$ -
Net Income (Loss)	<u>\$ (154,292)</u>	<u>\$ (106,368)</u>	<u>\$ 2,534</u>	<u>\$ 35,784</u>