

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
DECEMBER 2009**

**CON REVIEW: HG-AC-1009-029
NESHOPA COUNTY GENERAL HOSPITAL-NURSING HOME
ACQUISITION OF A CLINIC BUILDING
CAPITAL EXPENDITURE: \$2,676,000
LOCATION: PHILADELPHIA, NESHOPA COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Neshoba County General Hospital and Nursing Home (NCGH) are county owned, not-for-profit healthcare facilities. The hospital is governed by a five-member Board of Trustees appointed by the Board of Supervisors. Quorum Health Resources, LLC, in Brentwood, Tennessee, has a contract for management of the facilities.

The hospital is licensed for 82 acute care beds, and operates a 10-bed swing-bed program and a 10-bed gero-psych program. The nursing home is licensed for 148 nursing facility beds and 22 personal care beds. Both the hospital and nursing home are certified for Medicaid and Medicare participation.

B. Project Description

Neshoba County General Hospital and Nursing Home requests Certificate of Need (CON) authority for the acquisition of a clinic building in Philadelphia, Neshoba County, Mississippi.

The applicant has contracted to purchase the land and building known as Air Park Clinic in Philadelphia, Mississippi, for \$2,650,000. The parcel of land contains approximately 3.5 acres and a 16,000 square foot medical clinic building.

This proposed project is a real estate investment and the building is to be utilized as a physicians' clinic. Therefore, it does not involve any new construction or renovation, nor any new services or new equipment acquisition. Also, there will be no change in bed capacity or healthcare services.

On September 24, 2009, the Mississippi State Department of Health, Division of Health Facilities Licensure and Certification, found that this project does not require site assessment or construction plan review with the understanding that no in-patient services or ambulatory surgery services will be provided in the Airpark Clinic.

The applicant anticipates obligation of the capital expenditure immediately upon CON approval and expects that the project will be complete within two weeks of the CON approval date.

II. TYPE OF REVIEW REQUIRED

This project for the acquisition of a clinic building is reviewed in accordance with Section 41-7-191, subparagraph (1)(j), of the Mississippi Code 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 of 1972 Annotated, as amended, any affected person may request a public hearing on this project within 20 days of the publication of the staff analysis. The opportunity to request a hearing expires on December 21, 2009.

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

A. State Health Plan (SHP)

The FY 2010 State Health Plan does not contain policy statements and service specific criteria and standards for the acquisition of land and/or buildings for physicians' clinics, which are not healthcare facilities. However, the project is in substantial compliance with the overall objectives of the FY 2010 State Health Plan.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, revised September 1, 2009*, addresses general criteria by which all CON applications are reviewed. The applicable criteria are discussed below.

GR Criterion 1 – Consistency with the State Health Plan

This application is in compliance with the overall objectives of the FY 2010 State Health Plan.

GR Criterion 2 - Long Range Plan

The applicant states that this project is consistent with NCGH's long-range strategic plan. The applicant further states that the plan enables the applicant the opportunity to secure physician clinic space in which to house physicians practicing locally. A central tenet to all of the applicant's strategic planning is the retention and/or recruitment of physicians to practice in Neshoba County to serve the healthcare needs of the community. In that strategic objective, the retention and/or recruitment of primary care physicians is of utmost importance. The enhancement of community healthcare service provision by the recruitment of physician specialists is a secondary goal of that planning. In addition, the applicant engaged the services of John McDaniel with Peak Physicians as a consultant to evaluate and counsel on the need and methodology to recruit and retain physicians in Neshoba County. Mr. McDaniel recommended that obtaining control of a building of significant size in which physician medical practices can readily locate facilitates the recruitment and/or retention of physicians in Neshoba County and constitutes a critical resource in the accomplishment of that objective.

GR Criterion 3 - Availability of Alternatives

The applicant submits that there is no better alternative to the proposed project, thus they considered and rejected the following alternatives:

- ❖ **Status Quo** – NCGH could do nothing and continue to rely on physician investment in real estate to create suitable clinic space. That course of action was rejected as impractical since current physicians in Neshoba County already

occupy most of the existing space suitable for physician clinics and since modern medical practice/technology makes the construction of new clinic space increasingly expensive to develop. Furthermore, new physicians increasingly leave their training programs with significant educational debt, making the undertaking of the development of suitable clinic space economically and financially difficult for such physicians to undertake, particularly in the current uncertain financial times. Doing nothing would also result in NCGH having no clinic space in which to place any physician it successfully convinced to locate or relocate to Philadelphia, which would significantly discourage recruitment prospects from locating in Philadelphia.

- ❖ **Acquisition of Existing Local Physician Clinic Space** – The applicant considered the acquisition of existing physician clinic space in Philadelphia. However, the Air Park Clinic property turned out to be the only available space in Philadelphia, as well as being the largest existing physician clinic space in the service area. The Air Park Clinic property is also located on a tract of land large enough to provide for on-site expansion possibilities.

- **Lease** – Upon examination of the Air Park Clinic property, the Applicant discovered that the property was owned by a local businessman and leased for use by a local multi-physician practice group. Applicant considered entering into a long term lease with the owner of the property. The owner was much more interested in selling the property, and leasing would leave NCGH vulnerable to the whims of the property owner at the expiration of any lease term if he had another potential tenant, an alternate use for the property, or if his personal circumstances simply dedicated sale of the property to the highest bidder. Leasing would also add to NCHG's on-going operating expensed, which would adversely affect its borrowing capacity.

- **Purchase** – Purchase of the property enabled the applicant to control this strategic local asset and also made its current acquisition more probable in light of the property owner's current strategic desires. Purchase was also a superior option since NCGH has sufficient cash reserves with which to purchase the property and continue to maintain its future borrowing capacity.

GR Criterion 4 - Economic Viability

Based on the applicant's three-year projections, this facility will appreciate a net income of \$3,828,884 the first year, \$2,952,253 the second year, and \$3,313,456 the third year of operation, respectively, with the purchase of the clinic. The project appears to be economically viable.

- a. **Proposed Charge:** The applicant asserts that no healthcare services are proposed in this project.
- b. **Projected Levels of Utilization:** The applicant asserts that no healthcare facilities or services are proposed in this project.

- c. **Project's Financial Feasibility Study:** The capital expenditure of the proposed project exceeds \$2,000,000; therefore, the applicant provided an audited financial report to verify that the proposed project will be financially viable. The application contains a statement from its Chief Financial Officer asserting to the economic viability of the project.

GR Criterion 5 - Need for the Project

- a. **Access by Population Served:** The applicant asserts that no healthcare services are proposed to be offered or expanded by this proposed project.
- b. **Relocation of Services:** This application does not involve the relocation of services or replacement of a facility that require CON review.
- c. **Probable Effect on Existing Facilities in the Area:** The applicant submits that no healthcare facilities or services are proposed in this application.
- d. **Community Reaction:** The application contains 16 letters of support for the proposed project.

GR Criterion 6 - Access to the Facility or Service

According to the applicant, no healthcare facilities or services are proposed in this application; however, all residents of NCGH's service area have access to all of the services of NCGH.

The following table shows NCGH's projected estimated gross patient revenues of health care provided to charity/medically indigent patients for years one and two for the proposed project:

Projected Year	Total Dollar Amount of Gross Patient Revenue
1	\$5,118,518 (5.45%)
2	\$5,617,216 (5.50%)

The physicians practicing in the Airpark Clinic building will continue their regular practice hours of operation.

GR Criterion 7 - Information Requirement

The applicant affirms that it will record and maintain the requested information required by this criterion and make it available to the Mississippi State Department of Health within 15 days of request.

GR Criterion 8 - Relationship to Existing Health Care System

As previously stated, this project does not involve any proposed healthcare services.

GR Criterion 9 - Availability of Resources

This project does not entail the establishment or expansion of healthcare services; as a result, no additional personnel are expected to be recruited and/or hired.

NCGH has sufficient physicians on staff at present to ensure proper implementation of the healthcare services it currently offers and the continuation of those healthcare services, particularly if this application is approved and the existing primary care physicians anticipated to occupy the medical clinic building are retained in practice in Neshoba County. Being a rural hospital, there has always been difficulty in recruiting physicians; however, NCGH has successfully accomplished physician recruitment in recent years to supplement its medical staff. To the extent that NCGH now needs or will need to recruit additional physicians, the applicant believes that the Air Park Clinic will facilitate physician recruitment and retention.

GR Criterion 10 – Relationship to Ancillary or Support Services

The applicant submits that this project does not propose the establishment of any healthcare services or facilities. However, all necessary support and ancillary services for the continuation of the primary care practice of the physicians anticipated to occupy the medical clinic building proposed to be acquired in this project are already provided either by that physician practice group or by NCGH.

GR Criterion 11 – Health Professional Training Programs

According to the applicant, the Air Park Clinic will have no effect on the clinical needs of health professional training programs in NCGH's service area since there are no health professional training programs in Neshoba County. The applicant states that NCGH participates cooperatively in East Central Community College's (ECCC) nurse training program. In the event NCGH were to lease portions of its old hospital facility to ECCC for use in the College's nurse training program after completion of the proposed hospital replacement, NCGH would consider ways the Air Park Clinic could be utilized to facilitate that training program.

GR Criterion 16 - Quality of Care

The applicant submits that the Air Park Clinic does not entail any healthcare services or facilities. However, NCGH has a long history of quality care and will continue to provide quality care to residents of its service area.

The applicant states that the Air Park Clinic will facilitate the retention and continuation of primary care physicians' services in Neshoba County which will prevent the deterioration of the ability of NCGH to provide quality care and adequate access to primary care in Neshoba County and to the residents of NCGH's service area.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

Cost Item	Projected Cost	% of Total
Construction Cost - New	\$ -	0.00%
Construction Cost - Renovation	-	0.00%
Capital Improvements	1,686,000	63.00%
Total Fixed Equip Cost	-	0.00%
Total Non-Fixed Equip Cost	-	0.00%
Land Cost	540,000	20.18%
Site Prep Cost	-	0.00%
Other - Site Expense Escalation	450,000	16.82%
Fees - architectural, engineering, etc.	-	0.00%
Fees - legal and accounting	-	0.00%
Contingency Reserve	-	0.00%
Other - Building Expense Escalation	-	0.00%
Capitalized Interest	-	0.00%
Other Cost (other equipment & other escalation contingency)	-	<u>0.00%</u>
Total Proposed Expenditures	\$ 2,676,000	100%

B. Method of Financing

The applicant proposes that the project will be financed from cash reserves.

C. Effect on Operating Cost

The Three-Year Projected Operating Statement is presented in Attachment 1 of this staff analysis.

D. Cost to Medicaid/Medicare

Based on revenue source projections presented in the application, the effect of the project on third party payers is as follows:

Payer Mix	Utilization Percentage	First Year Revenue
Medicaid	18	\$11,771,533
Medicare	38	25,514,532
Commercial	13	8,371,562
Other	15	10,053,266
Self Pay	16	10,923,914
Total	100	\$66,634,807

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for review and comment. The Division of Medicaid comments that any portion of the cost which may relate to outpatient services will be paid as outlined in the Medicaid State Plan. Thus, the Division of Medicaid opposes this project.

VI. CONCLUSION AND RECOMMENDATION

The *FY 2010 State Health Plan* does not contain policy statements and service specific criteria and standards for the acquisition of land and/or buildings for physicians' clinics, which are not healthcare facilities. However, the project is in substantial compliance with the overall objectives of the *FY 2010 State Health Plan*. The project is in compliance with criteria and standards stated in the *Mississippi Certificate of Need Review Manual*, revised September 1, 2009.

Therefore, the Division of Health Planning and Resource Development recommends approval of the application submitted by Neshoba County General Hospital – Nursing Home for the acquisition of a clinic building in Philadelphia, Neshoba County, Mississippi.

ATTACHMENT I
Neshoba County General Hospital
Neshoba County General Hospital Clinic Building Purchase
Three-Year Projected Operating Statement with Project

	<u>Proposed Year 1</u>	<u>Proposed Year 2</u>	<u>Proposed Year 3</u>
Revenue			
Inpatient Care Revenue	\$ 17,240,932	\$ 19,429,299	\$ 20,336,563
Outpatient Care Revenue	49,393,875	59,923,794	65,142,220
Gross Patient Care Revenue	\$ 66,634,807	\$ 79,353,093	\$ 85,478,783
Charity Care	\$ 3,500,000	\$ 4,564,800	\$ 4,575,260
Deductions from Revenue	36,543,758	44,471,529	48,749,658
Net Patient Care Revenue	\$ 26,591,049	\$ 30,316,764	\$ 32,153,865
Other Operating Revenue	\$ 237,660	\$ 240,037	\$ 242,437
Total Operating Revenue	\$ 26,828,709	\$ 30,556,801	\$ 32,396,302
Operating Expense			
Salaries	\$ 12,446,197	\$ 15,298,358	\$ 16,084,727
Benefits	2,596,277	3,191,237	3,355,274
Supplies	1,492,199	1,764,236	1,877,301
Services	2,874,265	3,248,420	3,437,629
Lease	527,322	667,031	680,372
Depreciation	630,918	753,171	933,773
Interest	-	-	-
Other	2,432,647	2,682,095	2,713,770
Total Operating Expense	\$ 22,999,825	\$ 27,604,548	\$ 29,082,846
Net Operating Income (Loss)	\$ 3,828,884	\$ 2,952,253	\$ 3,313,456
	<u>Proposed Year 1</u>	<u>Proposed Year 2</u>	<u>Proposed Year 3</u>
Inpatient days	8,920	9,651	9,713
Outpatient visits	74,217	98,146	102,808
Procedures	617	779	792
Charge per outpatient day	\$ 666	\$ 611	\$ 634
Charge per inpatient day	\$ 1,933	\$ 2,013	\$ 2,094
Charge per procedure	\$ 107,998	\$ 101,865	\$ 107,928
Cost per inpatient day	\$ 2,578	\$ 2,860	\$ 2,994
Cost per outpatient day	\$ 310	\$ 281	\$ 283
Cost per procedure	\$ 37,277	\$ 35,436	\$ 36,721