

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING
AND RESOURCE DEVELOPMENT
JANUARY 11, 2021**

**CON REVIEW: HG-MOB-1120-008
BAPTIST MEMORIAL HOSPITAL – DESOTO, INC.
D/B/A BAPTIST MEMORIAL HOSPITAL - DESOTO
CONSTRUCTION OF A MEDICAL OFFICE BUILDING
CAPITAL EXPENDITURE: \$34,401,763.00
LOCATION: SOUTHAVEN, DESOTO COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Baptist Memorial Hospital – DeSoto, Inc., d/b/a Baptist Memorial Hospital - DeSoto is a Mississippi not-for-profit corporation whose parent company is Baptist Memorial Health Care Corporation of Memphis, Tennessee. Baptist Memorial Hospital – DeSoto is a 339-bed acute care medical/surgical facility, located in Southaven, Mississippi. Its bed complement consists of 309 medical/surgical beds and thirty (30) rehabilitation beds. The entity has eleven (11) officers and directors. On October 28, 2020, the Mississippi Office of the Secretary of State issued a Certificate of Good Standing for the entity certifying that Baptist Memorial Hospital – DeSoto, Inc. d/b/a Baptist Memorial Hospital - DeSoto is in good standing to do business in Mississippi.

B. Project Description

Baptist Memorial Hospital – DeSoto, Inc., d/b/a Baptist Memorial Hospital - DeSoto (BMHD) requests Certificate of Need (CON) authority to construct a medical office building (“MOB” or “POB”) on its property. The applicant states the project involves a non-affiliated third-party developer that will lease the land from BMHD and handle construction, funding, and related costs of the building. According to the applicant, Southwest Healthcare Properties, LLC (“Southwest” or “the Developer”) is a recently formed Mississippi Limited Liability Company that is associated with Boldt Capital, LLC, a Wisconsin Limited Liability Company.

The applicant states BMHD outpatient service will lease space in the building with other space being leased primarily by the Baptist Memorial Health Care Corporation (“BMHCC”) entity, Baptist Memorial Medical Group (“BMG”) and other physicians and medical groups that have privileges at BMHD. The applicant further states the MOB will answer a need for additional space close to the hospital that is flexible to meet diverse patient needs. The applicant states the building will consist of three (3) floors and 88,972 Gross Square Feet (GSF) of space on approximately 8.12 acres. An outline of the building’s tenants and allocated space are as follows:

BMHD MEDICAL OFFICE BUILDING			
FLOOR NUMBER	TOTAL GSF	TENANT NAME	TENANT AREA
Third	24,880		
		Third Party Lease	22,095
		Circulation, RR, etc.	2,785
Second	24,880		
		BMG Surgical Oncology	4,365
		BMG Timeshare	5,313
		BMG Expansion	5,720
		Memphis Lung	6,330
		Circulation, RR, etc.	3,152
First	39,212		
		BMHD Cancer Care	19,874
		Mid-South Imaging Ctr.	8,138
		Prim Care + Urgent Care	7,261
		Circulation RR, etc.	3,939
Total	88,972	Gross Square Feet (GSF)	

The applicant states the BMHD Cancer Center tenant is a combination of two existing BMHD locations that are currently in nearby MOB. According to the applicant, one is approximately 0.7 miles away from the hospital at 7900 Airways Blvd., Southaven, MS 38671 and the other is approximately 0.2 miles from the hospital on the hospital campus, at 391 Southcrest Circle, Southaven, MS 38671. The applicant states the tenant, Mid-South Imaging Center, LLC ("MSIC LLC"), consisting of BMG physicians and MSIT radiologists, is proposing to include MRI services in a separate CON application. Also included will be Primary Care + Urgent Care offices operated by Baptist Medical Group.

The applicant asserts the new building will provide space for consolidation and growth of oncology services and will provide access and improve convenience for outpatients, families, and medical professionals. The applicant states the building is designed for easy access to outpatient care and continuity of service in a setting that is most cost effective for patients' various primary and diagnostic health needs. Furthermore, the applicant states the construction of a new sophisticated and advanced MOB is responsive to the community's immediate health needs with flexibility for longer-term service.

The applicant proposes a capital expenditure of \$34,401,763.00 which includes \$34,022,653.00 of allowances provided by the developer plus hospital moveable equipment and furniture and fixtures provided by the hospital in the amount of \$379,110.00. On October 29, 2020, the Mississippi State Department of Health, Division of Health Facilities Licensure and Certification, approved the proposed site at the MOB.

Baptist Memorial Hospital - DeSoto states it currently complies with all applicable codes and zoning ordinances of local, state and federal authorities, and it will obtain permits for construction of the medical office building. Further, the applicant affirmed the proposed project will comply with all applicable state statutes and regulations for protection of the

environment, including: 1) approved water supplies; 2) sewage and water disposal; 3) hazardous waste disposal; 4) water pollution control; 5) air pollution control; and 6) radiation control.

The applicant proposes that the capital expenditure will be obligated by February 2021 and anticipates the project will be complete by February 2022.

II. TYPE OF REVIEW REQUIRED

The Mississippi State Department of Health will review applications for a Certificate of Need (CON) for the construction of a medical office building under the requirements of Sections 41-7-173, 41-7-191, and 41-7-193, Mississippi Code of 1972 Annotated, as amended. MSDH will also review applications for CON according to the general criteria listed in the *Mississippi Certificate of Need Review Manual, September 1, 2019, Revision*; all adopted rules, procedures, plans, criteria and standards of the MSDH.

In accordance with Section 41-7-197(2) of the Mississippi code 1972 Annotated, as amended, any person may request a public hearing on this project within ten (10) days of publication of the staff analysis. The opportunity to request a hearing expires on January 21, 2021.

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

A. Mississippi State Health Plan (MSHP)

The *FY 2020 Mississippi State Health Plan* does not contain criteria and standards applicable to the construction of medical office buildings; however, the Plan states the MSDH will review applications for a CON for "...construction, renovation, expansion projects...involving a capital expenditure in excess of \$10,000,000.00." In addition, the MSDH reviews CON projects for MOBs constructed by any entity if the project is deemed to be "by-or-on-behalf" of a health care facility. This project, which is being developed and constructed by Southwest Healthcare Properties, LLC, costs in excess of \$10,000,000.00 and will be located on the campus of Baptist Memorial Hospital-DeSoto, with an option to purchase. Therefore, the applicant states the project is submitted because it may be considered to be "by-or-on behalf of" a health care facility.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, Revised September 1, 2019*, addresses general criteria by which all CON applications are reviewed. This application is in substantial compliance with the general review criteria.

GR Criterion 1 –State Health Plan

As stated above, the *FY 2020 Mississippi State Health Plan* does not contain criteria and standards applicable for the construction of a MOB; however, the project is in substantial compliance with general CON policies. The Plan states Mississippi's health planning and health regulatory activities have the following purposes:

- To improve the health of Mississippi residents,
- To increase the accessibility, acceptability, continuity, and quality of health services,
- To prevent unnecessary duplication of health resources, and
- To provide cost containment.

The applicant states this project will improve the health of Mississippi residents by extending the continuum of services on the familiar campus of a general acute care hospital. In addition, the applicant states the new building will permit the consolidation of cancer services from two existing locations and eliminate a duplication of health resources that has grown over time. The applicant asserts the consolidation, accessibility and coordination of services contributes to healthcare cost containment and improves in patient and staff satisfaction.

GR Criterion 2 - Long Range Plan

The applicant submits the long-range plan of BMHD is to meet the needs of the people it serves with highest quality in a sophisticated, compassionate, caring environment. The applicant also states the combined human resources of two cancer infusion locations will be able to coordinate activities to better accommodate patient expectations. The construction of a larger and more sophisticated facility and operation of a highly advanced, state-of-the-art Medical Office Building is responsive to the community's immediate and long-term health care needs.

GR Criterion 3- Availability of Alternatives

- a. Advantages and Disadvantages of Alternatives:** The applicant states the alternatives considered for the proposed project were to maintain the status quo, establish more off-campus service locations, and add space to the existing hospital. Each of these options were rejected as follows:
 1. Maintain the current status. This option would have been for the hospital to continue operation without change. The applicant states this option was rejected because it would not allow the hospital to effectively meet the needs of the people it serves. The applicant further states Federal and commercial payers are encouraging providers to provide services in the least expensive settings and some carriers are using pre-approval as a requirement for influencing service location.
 2. Establish more off-campus service locations. The applicant states this alternative was dismissed since it would not have resulted in a more efficient service configuration. The applicant also states this alternative would have been potentially more operationally expensive by duplicating resource needs and potentially encounter staffing difficulties. The applicant further states specially trained staff would have less potential for developmental communications with fewer opportunities for informal discussions.
 3. Add space to the existing hospital. The applicant states adding additional space at the hospital would not have provided a less complex setting for patients to navigate for ambulatory services.
- b. New Construction Projects:** The applicant states modernization of the existing facility was not an option since additional space is needed.

- c. **Beneficial Effects to the Health Care System:** The applicant states additional space at a familiar location provides access to various services in a supportive network of high-quality care. Further, the applicant states expanding the health care continuum settings on an acute care hospital campus is the most effective solution for enhancing value to the community from an existing established foundation.
- d. **Effective and Less Costly Alternatives:** According to BMHD, there is no alternative to the proposed project that is both more effective and less costly. The applicant submits the current patient base is the focus of improvement; the existing oncology infusion locations are consolidating in the same service area; and the new physician offices will be available for the local community with less travel requirements for current Baptist patients.
 - i. **Unnecessary Duplication of Services:** The applicant states this project involves consolidation to accommodate growth in an existing oncology health service and will provide time-share locations for efficient utilization of space by established physicians who are serving patients in the area.
 - ii. **Efficient Solution:** The applicant asserts the proposal is the most efficient solution to the community's need for additional space and for alternative services such as urgent care.
- e. **Improvements and Innovations:** The applicant asserts the additional building will improve patient access with clear identification of service locations from the exterior of the building, and convenient parking and attention to patient flow will increase clinical efficiency and enhance the level of patient satisfaction. The applicant states the needs of ambulatory patients are specifically addressed, and the additional space will support continual adaptation to evolving technologies. Additionally, the applicant states the new space can also allow design consideration for flexible space adaptations such as those required by the COVID-19 pandemic.
- f. **Relevancy:** The applicant states the primary goal of this project is to offer the residents of the area served by BMHD an effective state-of-the-art Medical Office Building with space that can be flexibly responsive to the community's immediate and long-term health care needs. The applicant further states as services continue to transition to other settings such as complex orthopedic surgeries and heart catheterizations moving to ambulatory surgery settings, more adaptive spaces will be needed.

GR Criterion 4 - Economic Viability

- a. **Proposed Charge:** The applicant states the service provided by the MOB is to the tenants - BMHCC, MBHD and BMG, which are all nonprofit entities. The applicant further states a market analysis was performed to determine the Fair Market Value ("FMV") for the land. The applicant submits the Cancer Center is currently located in other leased space and is familiar with local rental rates.
- b. **Projected Levels of Utilization:** The applicant states the projected levels of utilization are indicated by intents to lease included in the application. Projections for future leases are based on the historical experience of BMHCC

and Boldt Capital, LLC. The applicant further states the rates are based on the FMV and are reasonably consistent with similar facilities.

- c. **Financial Feasibility Study:** The application contains a letter from BOLDT to fund the project. In addition, the application contains a letter from the Chief Financial Officer of BMHD attesting to the viability of BMHD's portion of the project.
- d. **Financial Forecasts:** The applicant asserts hospital financials will not be impacted by the construction of the MOB. The applicant states a historical comparison is not available; however, since the oncology outpatient locations currently exist, there will not be significant deviations from the historical operations.
- e. **Covered Expenses:** The applicant affirms this criterion is not applicable for the proposed project.
- f. **Impact of Proposed Project on Health Care Cost:** This criterion is not applicable.

GR Criterion 5 - Need for the Project

- a. **Access by Population Served:** The applicant asserts the need for the MOB is established by the need for additional space for access to available health services. The applicant further states the current population that is being served is anticipated to continue in the new MOB, to include medically underserved groups such as racial and ethnic minorities, Medicaid recipients and the indigent. According to the applicant, the MOB is designed with attention of all ages and accommodations for pediatric and geriatric patients.
- b. **Relocation of Services:** The applicant states the proposed MOB will include BMHD oncology chemotherapy service that is currently in two (2) off-campus MOB, which are not under the control of BMHD.
- c. **Current and Projected Utilization of Comparable Facilities:** The applicant submits the MOB is not a health care facility. BMHD states it was unsuccessful in finding other available MOB space approximately located in the community. The applicant states the proposed project will not have an adverse impact on other hospitals in the service area because no new institutional health services are proposed.
- d. **Probable Effect on Existing Facilities in the Area:** The applicant asserts that the MOB is not to effect other facilities but to meet current needs that exist at BMHD. The applicant states the only other hospital in the area is Methodist Healthcare – Olive Branch Hospital and it has a MOB in close proximity to the Olive Branch Hospital.
- e. **Community Reaction to Service:** The applicant submits the MOB is a new building, and patients and physicians will have more convenience and access.

GR Criterion 6- Access to the Facility or Service

- a. Access to Services:** The applicant submits BMHD is accessible to all residents of its service area, and does not exclude patients because of race, age, sex, ethnicity, or ability to pay. In addition, the applicant states medically underserved groups will continue to have access to all hospital services available in the MOB.

The following table shows the projected estimated gross patient revenues of health care to medically indigent and charity care patients for years one and two for BMHD:

	Medically Indigent (%)	Medically Indigent (\$)	Charity Care (%)	Charity Care (\$)
Historical Year 2019	1.95%	\$29,493,266.00	4.41%	\$66,817,277.00
Historical Year 2020	1.82%	\$27,059,390.00	4.05%	\$60,200,498.00
Projected Year 1	1.88%	\$28,274,349.00	4.23%	\$63,504,542.00
Projected Year 2	1.88%	\$28,557,092.00	4.23%	\$64,139,587.00

- b. Existing Obligations:** The applicant indicates that it has no existing or remaining obligations under federal regulation requiring provision of uncompensated care, community service, or access by minority or handicapped persons.
- c. Unmet Needs of Medicare, Medicaid, and Medically Indigent Patients:** The applicant submits that in accordance with Title VI and VII of the Civil Rights Act of 1964 and its implementing regulations, Baptist Memorial Hospital-DeSoto, directly or through contractual or other arrangements, admits and treats all persons without regard to race, color, sex, age, disability or national origin in its provision of services and benefits, including assignments or transfers within the facility and referrals to or from the facility. In addition, the applicant states staff privileges are granted without regard to race, color or national origin.
- d. Access to Proposed Facility:** The applicant indicates all health services offered by the applicant are accessible to all residents of the service area. The application contains a copy of The Baptist Financial Assistance Policy.
- e. Access Issues:**
- i. Transportation and Travel:** The applicant states the MOB is conveniently located on the hospital campus that is approximately five (5) minutes driving time from Interstate 69/55 (I69) that is approximately 0.3 miles away. The applicant states other accesses from Airways Boulevard are approximately 0.4 miles and eight (8) minutes by vehicle.
 - ii. Restrictive Admission Policy:** The application contains a copy of the current admissions policy, which indicates BMHD does not restrict patients based on race, color, age, sex, ethnicity, or ability to pay.

- iii. **Access to Care by Medically Indigent Patients:** The applicant provided a copy of The Baptist Financial Assistance Policy.
- iv. **Operational Hours of Service:**
 - 1. **Regular operation.** The applicant states exterior access is provided for most of the services that will be open at different hours than 8:00 am to 5:00 pm during Monday through Friday.
 - 2. **Emergency only operation.** The applicant states services may be accessible after hours by appointment with the tenant.

GR Criterion 7- Information Requirement

The applicant affirms that it will record and maintain, at a minimum, the information stated in this criterion regarding charity care, care to the medically indigent, and Medicaid populations, and make it available to the Mississippi State Department of Health within fifteen (15) days of request.

GR Criterion 8 - Relationship to Existing Health Care System

- a. **Comparable Services:** The applicant states other MOB's are located and used by MBHCC services in the area. BMHD states additional space is needed for consolidating existing chemotherapy locations in MOB's within the service area, and other space is needed to accommodate urgent care, diagnostic services and physician practices.
- b. **Effects on Existing Health Services:**
 - i. **Complement Existing Services:** The applicant states BMHD complements existing health services by offering oncology chemotherapy services.
 - ii. **Provide Alternative or Unique Services:** The applicant states BMHD will have space to accommodate current need and reasonable future needs for physician office and ambulatory services with implementation of this project.
 - iii. **Provide Services for a Specific Target Population:** The applicant asserts the BMHD is a full-service hospital, but this project is responsive to those patients who are in need of ambulatory care and diagnostic services. The applicant further states BMHD and BMG have the medical staff and population base necessary to support these services and programs in a MOB.
 - iv. **Provide Services for Which There is an Unmet Need:** The applicant submits BMHD will be able to continue serving the growth of ambulatory services.
- c. **Adverse Impact:** BMHD states if the MOB is not constructed, the residents served by BMHD will be directly affected by a delay in convenient access and choices of care settings.

- d. **Transfer/Referral/Affiliation Agreements:** The applicant states BMHD has agreements and access to resources in the Baptist Memorial Health Care System.

GR Criterion 9 - Availability of Resources

- a. **New Personnel:** The applicant states this proposal continues existing provider-based chemotherapy services through highly trained professional staff; physicians will be located in nearby offices; and BMHD has access to the resources of the Baptist Memorial Health Care Corporation for recruitment of other qualified personnel as growth continues.
- b. **Contractual Services:** The applicant confirms this project is not dependent on clinically related contractual services.
- c. **Existing Facilities or Services:** The applicant asserts BMHD has consistently demonstrated a satisfactory operational and staffing history, as evidenced in part, by its certification by the Joint Commission.
- d. **Alternative Uses of Resources:** The applicant affirms this criterion is not applicable and states this project is proposing appropriate space to support resources.

GR Criterion 10 – Relationship to Ancillary or Support Services

- a. **Support and Ancillary Services:** The applicant states the proposal is to improve access to another setting of care for the community using existing resources in an additional location.
- b. **Changes in Costs or Charges:** The applicant states it is not projected that this project will result in a material change in patient costs or charges.
- c. **Accommodation of Changes in Costs or Charges:** As stated above, the applicant asserts the project provides an additional setting for care and will not result in a material change in patient cost or charges.

GR Criterion 11- Health Professional Training Programs

The applicant affirms GR Criterion 11 is not applicable because the MOB is not introducing new services through a licensed healthcare facility. The applicant further states the tenants may provide opportunities for health professional training.

GR Criterion 12 – Access by Health Professional Schools

The applicant affirms GR Criterion 12 is not applicable to this project. However, the applicant states BMHD will continue to work with schools to offer appropriate access for health professional training.

GR Criterion 13 – Access to Individuals Outside Service Area

The applicant affirms GR Criterion 13 is not applicable for this project; however, BMHD's service area includes portions of South Shelby County Tennessee.

GR Criterion 14 – Construction Projects

The applicant states, construction costs and financial projections, demonstrating economic viability are included in the Financial Analysis Section of the application, as discussed with the Department. A construction cost verification from the architect is also included in the application.

GR Criterion 15 – Competing Applications

There are no competing applications on file with the Department regarding construction of a MOB.

GR Criterion 16 - Quality of Care

- a. **Past Quality of Care:** The applicant states BMHD is accredited by the Joint Commission, licensed by the Mississippi State Department of Health, and certified for participation in the Medicare and Mississippi Medicaid programs.
- b. **Improvement of Quality of Care:** The applicant states the proposed MOB will significantly improve quality of care choices that are available for selection by all patients and residents in BMHD’s of the service area.
- c. **Accreditation and/or Certificates:** As stated above, the applicant states BMHD is accredited by the Joint Commission, licensed by the Mississippi State Department of Health, and certified for participation in the Medicare and Mississippi Medicaid programs.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

Item	Cost	Percentage of Total
New Construction	\$25,296,486.00	73.53%
Renovation	0.00	0.00%
Capital Improvements	0.00	0.00%
Land Cost	800,000.00	2.33%
Fixed Equipment	0.00	0.00%
Non-fixed Equipment	290,580.00	0.84%
Fees (architectural, etc.)	4,426,167.00	12.87%
Site Preparation	2,200,000.00	6.40%
Legal and Accounting Fees	85,000.00	0.25%
Contingency Reserve	850,000.00	2.47%
Capitalized Interest	370,000.00	1.07%
Other	83,530.00	0.24%
Totals	\$34,401,763.00	100.00%

The applicant submits that the above cost includes tenant allowances provided by the developer in the amount of \$34,022,653.00 plus hospital moveable equipment and furniture and fixtures provided by the hospital in the amount of \$379,110.00. The

applicant indicates the project includes approximately 88,972 square feet of new construction at a cost of \$372.51 per square feet.

B. Method of Financing

The project will be financed by Boldt Capital, LLC at a rate of 5.80% over a term of thirteen (13) years. The application contains a letter from Boldt Capital, LLC verifying the financing of the project.

C. Effect on Operating Costs

See Attachment 1 for the applicant's Three-Year Operating Statement.

D. Cost to Medicaid/Medicare

Cost to third party payors could not be determined as the project will be developed by a third-party entity and leased to the applicant along with other tenants.

V. RECOMMENDATION OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for review and comment. In a letter dated December 10, 2020, the Division of Medicaid responded: "Effective September 1, 2012, the Division changed the methodology by which it reimburses outpatient services so that the cost incurred subsequent to that date will no longer affect outpatient payments. 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 outlier payments. Therefore, payments resulting from this CON cannot be determined."

VI. CONCLUSION AND RECOMMENDATION

This *FY 2020 Mississippi State Health Plan* does not contain criterial and standards for the construction of a medical office building; however, the project is in compliance with general CON policies and is consistent with Mississippi's health planning and health regulatory activities stated in the Plan; Chapter 8 of the *Mississippi Certificate of Need Review Manual, September 1, 2019 Revision*; and all 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 Baptist Memorial Hospital – DeSoto for the construction of a medical office building on its campus.

Attachment 1

**Baptist Memorial Hospital – DeSoto POB
 Southaven Healthcare Properties, LLC
 Base Rent & Lease-Up Projections**

	Year 1	Year 2	Year 3
Percentage Occupied	69%	85%	95%
Cash Flow from Operations			
Base Rental Revenue	\$ 1,394,455.25	\$ 1,751,165.87	\$1,996,653.51
Reimbursement-op. Expenses	602,110.00	737,706.50	824,495.50
Operating Expense	(694,312.00)	(781,101.00)	(824,495.50)
Operating Reserve	<u>(21,697.25)</u>	<u>(21,697.25)</u>	<u>(21,697.25)</u>
Net Operating Income	\$ 1,280,556.00	\$ 1,686,074.12	\$1,974,955.25

According to the applicant, financial projections and cash flow are based off the projected budget and rental rate for the entire new POB development. The applicant states Year 1 projections assume a 71% occupancy rate, which includes spaces intended to be leased by tenants pre-identified by the developer and Baptist; the projections then assume a conservative ramp up of occupancy to a stabilized rate of 95% in Year 3; and the projections assume fair market value base rental rate and annual base rental rate escalations of 2%.