

**MISSISSIPPI STATE DEPARTMENT OF HEALTH  
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT  
APRIL 2010**

**CON REVIEW: HG-MOB-0110-003  
OKTIBBEHA COUNTY HOSPITAL  
CONSTRUCTION OF MEDICAL OFFICE BUILDING  
CAPITAL EXPENDITURE: \$2,555,400  
LOCATION: STARKVILLE, OKTIBBEHA COUNTY, MISSISSIPPI**

**STAFF ANALYSIS**

**I. PROJECT SUMMARY**

**A. Applicant Information**

Oktibbeha County Hospital is a short-term, general acute care, public hospital located in Starkville, Oktibbeha County, Mississippi. The facility is governed by a seven-member Board of Trustees. The facility is certified to participate in the Medicare and Medicaid programs and is accredited by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO).

Oktibbeha County Hospital consists of 96 licensed beds. The occupancy rates, average length of stay (ALOS), and Medicaid utilization for the three most recent years are as follow:

**Oktibbeha County Hospital  
Utilization Data**

<b>Fiscal Year</b>	<b>Occupancy Rate (%)</b>	<b>ALOS (Days)</b>	<b>Medicaid Utilization Rate (%)</b>
2006	35.36	3.62	40.42
2007	36.82	3.65	38.51
2008	35.23	3.59	36.40

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

**B. Project Description**

Oktibbeha County Hospital requests Certificate of Need (CON) authority to construct a 13,767 square foot one-story medical office building located approximately 0.2 miles from the existing Hospital.

The applicant states the facility will be owned by Oktibbeha County Hospital and will reside on 6.75 acres of Hospital owned property on the Northeast end of Hospital Road, Starkville, Oktibbeha County, Mississippi. The Medical Office Building (MOB) will be leased to the Starkville Clinic for Women, PA with the sole group of physicians serving as tenant and Oktibbeha County Hospital as the owner of the facility.

The applicant affirms that the MOB is intended for the recruitment and retention of new and existing physicians in the area. According to the terms of the lease agreement between the owner and tenant, the new MOB will be leased to the

tenant upon the acquisition of the existing MOB located at 107 Doctors Park, Starkville, Mississippi. Consequently, the signed lease of the new MOB will be deemed effective as of the closing sale of the existing MOB to Oktibbeha County Hospital.

The site is a one-story medical office building approximately 13,767 square feet in space with 1,190 square feet porte-cochere. The applicant states the proposed project will consist of the following components: thirteen exam rooms, two procedure rooms, a pathology laboratory, two stress testing rooms, an ultrasound room, private offices, public waiting areas, staff conference/break room, and miscellaneous storage and mechanical/electrical rooms.

Additionally, 83 parking spaces will be provided including four handicapped accessible parking spaces to allow convenient entry into the facility. A covered vehicular drop-off is located at the main entrance for expediency. The exterior of the facility is designed to aesthetically accommodate the concealment of the roof-top mounted mechanical equipment units, and the delivery pad and dumpster enclosure.

The applicant proposes a total capital expenditure in the amount of \$2,555,400 or \$185.62 per square foot for the project. This includes site preparation, parking construction, fixed equipment, and fees. A cost estimate has been presented by Dean and Dean Associates Architects providing a detailed assessment of the project.

The applicant asserts full compliance with all applicable local and state statutes and regulations affiliated with the construction of this project. Upon CON approval, the project shall commence on May 1, 2010 with an anticipated completion date of March 1, 2011.

## **II. TYPE OF REVIEW REQUIRED**

This project is reviewed 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 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 publication of the staff analysis. The opportunity to request a hearing expires May 5, 2010.

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

### **A. State Health Plan (SHP)**

The *FY 2010 Mississippi State Health Plan (FY 2010 MSHP)* contains criteria and standards which the applicant is required to meet prior to receiving CON authorization for construction, renovation, and the acquisition of major medical equipment. The applicant is in compliance with all applicable criteria and standards.

**SHP Criterion 1 – Need Criterion**

The applicant proposes to construct a one-story medical office building as a means to alleviate the need for office space in the main hospital, and aid in the recruitment and retention of physicians in the area.

**SHP Criterion 2 – Bed Service Transfer/Reallocation/Relocation**

The criterion is not applicable to the proposed project.

**SHP Criterion 3 – Charity/Indigent Care**

The applicant asserts the continued provision of charity and indigent care pursuant to the Charity Care Policy. The approved budget for FY 2009-2010 for inpatient and outpatient care as set by the Board of Trustees is \$2,500,000.

**SHP Criterion 4 – Cost of Proposed Project**

- a. **Cost per Square Foot:** The anticipated cost of building construction for 13,767 square feet is \$185.62 per square foot. This figure includes costs for site preparation, parking construction, fixed equipment, and fees. The applicant asserts the cost is consistent with construction of similar projects.
- b. **Equipment Cost:** The applicant states that no equipment is expected for the proposed project.

**SHP Criterion 5 – Floor Area and Space Requirements**

- a. The applicant states the gross square footage of the proposed project is consistent in size as projects of this caliber occurring within the state.
- b. The criterion is not applicable to the proposed project.
- c. The criterion is not applicable to the proposed project.

**SHP Criterion 6 – Cost of Proposed Renovation or Expansion Project**

The criterion is not applicable to the proposed project.

**SHP Criterion 7 – Need for Specific Service**

The applicant attests a need for a specific service does not exist as the proposed project only requires the construction of a One Story Medical Office Building to be located off-site from the main Hospital campus onto Hospital owned property.

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

Chapter 8 of the *Mississippi Certificate of Need Review Manual, December 1, 2009 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**

The proposed project is consistent with the *FY 2010 State Health Plan*.

### **GR Criterion 2 – Long Range Plan**

The applicant states the proposed project is in accordance with the Hospital's Five-Year Strategic Plan which addresses a desire to improve physician recruitment and relationships, and develop effective strategy to address physician clinic competition. As a result of having insufficient space to accommodate potential physician growth, the Hospital has been unable to meet the set goals outlined in the Strategic Plan. The applicant asserts the proposed project will support this effort.

### **GR Criterion 3 – Availability of Alternatives**

As stated in the proposed plan, the following alternatives were considered:

1. Renovation of the existing facility and the construction of an addition.
2. Renovation of the existing facility.
3. Construction of a new building to accommodate all services.
4. Status Quo

As stated by the applicant, the existing facility is currently owned by the Starkville Clinic for Women, P.A. As the physicians are not employed by the Hospital, the renovation and construction of the existing facility is not a feasible alternative as the current property does not provide adequate space to facilitate an expansion suitable to accommodate the necessary physician growth and anticipated patient volume associated with it. The existing facility currently houses six physicians and a seventh physician will begin practice in August 2010 to meet the demand for specialty outpatient obstetrical/gynecological care in the community.

The applicant asserts by continuing to perform as status quo with no change, the physicians incur hindrance in their ability to meet the patient service needs as well as their ability to recruit and retain additional physicians.

Therefore, the applicant does not foresee any advantages correlated to any of the aforementioned alternatives aside from the construction of a new building to accommodate all services. The applicant has also evaluated other proposals for construction and has deemed the proposed project as the most efficient and cost-effective.

### **GR Criterion 4 – Economic Viability**

- a. **Proposed Charge:** The applicant states the Hospital will enter into a 10-year lease of the MOB to the physician occupants at the fair market value (FMV) rental rate of \$13.00 per square foot as pursuant with FMV requirements of the Stark Rules and Regulations. The 10-year lease will have a recalculation clause at two-year intervals in accordance with the federal Stark Rules and Regulations. The office lease for 10 years will be binding and subject to payment acceleration for early termination of the lease agreement. The FMV rental rate is determined by Mississippi Certified General Real Estate Appraiser. The applicant has submitted a letter of intent from the physicians indicating agreement to the proposed lease upon CON approval of the proposed project.
- b. **Projected Levels of Utilization:** The criterion is not applicable to the proposed project.

**c. Project's Financial Feasibility Study:** The applicant submitted a letter from the Hospital's chief financial officer asserting the proposed project is financially feasible.

**d. Deviation from financial forecast**

The applicant asserts a significant deviation does not exist between the financial forecasts of FY 2010 to FY 2013 and the financial statements of FY 2007 to FY 2013

**e. Project's Expense Coverage**

The applicant states the proposed project's expense will be covered with the fair market value rental income generated from the 10-year lease agreement established between the Hospital and the occupants of the MOB.

**f. Project's Impact on Health Care Costs**

The applicant states the proposed project will not have a foreseeable impact on the gross revenues, expenses per patient, or per procedure of the Hospital.

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

The applicant states there is not a proposal of any new services; however, the intent of the service is to accommodate the medical practice needs of the current and future physicians. The proposed project also seeks to improve access by increasing the availability of parking by the construction of 86 parking spaces at the MOB site. A demand for the gynecological/obstetrical services provided by the physicians of Starkville Clinic for Women will continue to be evident at the new MOB as it is at the existing MOB. The newly constructed MOB is more suitable in design and space for the provision of services and patient care.

In accordance with previous admission practices of Starkville Clinic for Women, the MOB will continue to serve residents of the service area, including low income persons, all racial and ethnic minorities, handicapped persons, underserved persons, and the elderly. OCH is a Medicaid Disproportionate Share Hospital; consequently, it provides a secure source of healthcare to the residents in the service area without regard to age, creed, race, sex, or ability to pay. The proposed project will not negatively impact the above parties.

The applicant states the existing MOB currently owned by the physicians of Starkville Clinic for Women will be purchased by OCH. Upon purchase, OCH will lease the building to the physicians at FMV during the construction of the new MOB. The existing MOB will be used as office space for physicians as the Hospital is no longer able to furnish medical office space near the Hospital.

The applicant states no new services or beds are requested for the proposed project. Therefore, negative impact to healthcare providers within the Hospital's primary and secondary service area should not occur. It is likely that a positive impact will result from the proposed project by the provision of quality care and the availability of physicians of a gynecological/obstetrical specialty group.

The applicant has included several letters of support from affiliates in agreement with the project.

### **GR Criterion 6 – Accessibility**

OCH extends its services and facilities to all residents of the General Hospital Service Area as well as within the primary and secondary service area. OCH is a Level III Trauma Center and a Medicare Disproportionate Hospital providing patient care access to all individuals without regard to age, creed, sex, race, or ability to pay.

The applicant states the Hospital will not provide direct access to the new MOB except to the physicians of the OB/GYN specialty group for rental purposes. Public transportation to the Hospital is provided by United Way of Starkville. This service is extended to senior citizens or individuals with mental or physical disabilities within the Starkville City limits. Public transportation to the general public is available by taxicabs. The Hospital operates ambulance service within Oktibbeha County available to transport patients to the Hospital or either tertiary or higher level hospital facilities. The Hospital is accessible by motor vehicle or ambulance service within 30 minutes for residents within the primary and secondary service area.

The applicant states the tentative hours of operation for the proposed project will be 8 am to 5 pm Monday through Friday. The physicians of Starkville Clinic for Women, P.A. respond to emergency calls on a rotating basis to both clinic and un-referred patients in need of treatment through the emergency department of the Hospital.

### **GR Criterion 7 – Information Requirement**

The applicant states the proposed project is not a hospital-owned clinic. However, the Hospital asserts it will record and maintain the information requirements set forth by this criterion, and make the data 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 states the proposed project will not extend any new services nor will it affect existing health care services extended by providers within the General Hospital Service Area. There are no existing comparable acute care services in Oktibbeha County.

The applicant asserts the proposed project will assist in the recruitment and retention of physicians; however, in its absence, there will be limited office space available. Alternatives to this project would include the renovation of vacant buildings at locations away from the Hospital or the physicians would be forced to perform services in confined spaces.

Advantages associated with the proposed plan are accessible healthcare to the residents of the community, sufficient office space conveniently located near the Hospital for physicians, and potential growth for OB/GYN specialty service.

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

The applicant states no new personnel will be necessary for the proposed project. Satisfactory resources are available to accommodate the administrative demands of the clinic. An additional obstetrician / gynecologist have been

recruited for a total of seven physicians partnered with Starkville Clinic for Women, P.A.

**GR Criterion 10 – Relationship to Ancillary or Support Services**

The applicant asserts the proposed project should not have an adverse effect upon the delivery of ancillary or support services or the charges associated with the services.

**GR Criterion 11 – Health Professional Training Programs**

The criterion is not applicable to the proposed project.

**GR Criterion 12 – Access by Health Professional Schools**

The criterion is not applicable to the proposed project.

**GR Criterion 13 – Access by Residents Outside the Service Area**

The applicant states individuals outside the service area are not a target market; however, services will be provided to all individuals regardless of residency.

**GR Criterion 14 – Construction Projects**

- a. **Cost Estimate:** The application contains a cost estimate prepared by Dean and Dean Associates Architects.
- b. **Schematic Drawing:** The application contains a schematic drawing of the proposed construction project.
- c. **Space Allocations:** The applicant states that the project will comply with state and local building codes, zoning ordinances, and all appropriate regulatory authorities. The applicant provided written assurance that the facility will comply with state statutes and regulations for the protection of the environment.
- d. **New Construction Projects:** The proposed project involves the construction of a medical office building.
- e. **Cost per square foot:** The applicant states the proposed project consists of approximately 13,767 square feet of new construction at \$185.62 per square foot. According to the R.S. Means Building Construction Cost Data, 2009 Edition, the proposed project is within the cost range of medical office buildings. The project is also comparable in costs to other construction projects previously reviewed approved by the Mississippi State Department of Health.

**GR Criterion 16 – Quality of Care**

Oktibbeha County Hospital has consistently provided quality care to its patient through its dissemination of proficient, timely, and cost effective services to the residents within its service area and the seven surrounding counties. The Hospital has also responded favorably to the needs of the community. The proposed project will continue to address the needs of community by providing accessibility and convenience through the construction of the new MOB in a

location in close proximity to the Hospital with additional parking to accommodate both physicians and patients. The application contains a list of current accreditations and certifications held by the applicant.

**IV. FINANCIAL FEASIBILITY**

**A. Capital Expenditure Summary**

The total estimated capital expenditure is allocated as follows:

	<b>Item</b>	<b>Cost</b>	<b>Percentage of Total</b>
a.	Construction Cost - New	\$ 1,973,040	77.21%
b.	Construction Cost – Renovation	\$ 0	0.00%
c.	Capital Improvements	\$ 0	0.00%
d.	Total Fixed Equipment Cost	\$ 40,000	1.57%
e.	Total Non-Fixed Equipment Cost	\$ 0	0.00%
f.	Land Cost	\$ 0	0.00%
g.	Site Preparation Cost	\$ 246,960	9.66%
h.	Fees (architectural, consulting, etc.)	\$ 155,400	6.08%
i.	Contingency Reserve	\$ 140,000	5.48%
j.	Capitalized Interest	\$ 0	0.00%
k.	Other (Personal Financing)	\$ 0	0.00%
	<b>Total Proposed Capital Expenditure</b>	<b>\$ 2,555,400</b>	<b>100%</b>

The Oktibbeha County Hospital proposes to construct a medical office building. The medical office building will be leased to the Starkville Clinic for Women, PA with the sole group of physicians serving as tenant and Oktibbeha County Hospital as the owner of the facility. The site is a one-story medical office building approximately 13,767 square feet in space with 1,190 square feet porte-cochere. The anticipated cost of construction for the proposed project is \$185.62 per square foot.

**B. Method of Financing**

The applicant states the proposed project will be financed with the fair market value rental on income generated from the 10-year lease established between the occupant and the Hospital.

**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**

According to the applicant, the proposed project is for the construction of a MOB and will not have a material impact on Medicaid. Therefore, the project will not have any effect on third party payors.

**V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES**

The Division of Medicaid was provided a copy of this application for review and comment. No comments were received from the Division of Medicaid.

**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 *2010 Mississippi State Health Plan*; Chapter 8 of the *Mississippi Certificate of Need Review Manual, December 1, 2009, Revised*; 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 this application submitted by Oktibbeha County Hospital for the construction of a medical office building.

**Oktibbeha County Hospital**  
**Three-Year Operating Statement**  
**Attachment I**

	Year 1	Year 2	Year 3
<b>Revenue</b>			
Inpatient Care Revenue	\$ 50,889,344	\$ 54,461,287	\$ 58,657,118
Outpatient Revenue	\$ 95,936,769	\$ 100,814,428	\$ 105,969,811
<b>Gross Patient Revenue</b>	<b>\$ 146,826,113</b>	<b>\$ 155,275,715</b>	<b>\$ 164,626,929</b>
Charity	\$ 2,625,000	\$ 2,756,250	\$ 2,894,062
Deductions from Revenue	\$ 91,856,318	\$ 97,162,313	\$ 103,041,925
<b>Net Patient Care Revenue</b>	<b>\$ 52,344,795</b>	<b>\$ 55,357,152</b>	<b>\$ 58,690,942</b>
Other Operating Income	\$ 17,112,131	\$ 17,936,057	\$ 18,764,768
<b>Total Operating Revenue</b>	<b>\$ 69,456,926</b>	<b>\$ 73,293,209</b>	<b>\$ 77,455,710</b>
<b>Operating Expenses</b>			
Salaries	\$ 32,926,601	\$ 34,522,965	\$ 36,443,990
Benefits	\$ 5,666,804	\$ 5,874,527	\$ 6,128,526
Supplies	\$ 10,505,121	\$ 10,847,419	\$ 11,212,060
Services	\$ 4,390,342	\$ 4,529,691	\$ 4,676,619
Lease	-	-	-
Depreciation	\$ 4,577,970	\$ 5,230,853	\$ 5,872,499
Interest	\$ 1,133,000	\$ 1,166,990	\$ 1,202,000
Other	\$ 7,281,394	\$ 8,079,577	\$ 8,479,381
<b>Total Operating Expenses</b>	<b>\$ 66,481,232</b>	<b>\$ 70,252,022</b>	<b>\$ 74,015,075</b>
<b>Net Operating Income</b>	<b>\$ 2,975,694</b>	<b>\$ 3,041,187</b>	<b>\$ 3,440,635</b>
	<b>Proposed</b>	<b>Proposed</b>	<b>Proposed</b>
	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
Inpatient days	14,301	15,013	15,601
Outpatient days	58,807	60,001	61,219
Charge per inpatient day	3,558	3,628	3,760
Charge per outpatient day	1,631	1,680	1,731
Cost per inpatient day	4,649	4,679	4,744
Cost per outpatient day	1,130	1,171	1,209