

**DIVISION OF HEALTH PLANNING
AND RESOURCE DEVELOPMENT
MAY 2012**

**CON REVIEW HG-AA-0312-004
MAGEE BENEVOLENT ASSOCIATION dba MAGEE GENERAL HOSPITAL
PURCHASE OF INTEREST IN OWNER OF MEDICAL OFFICE BUILDING
CAPITAL EXPENDITURE: \$7,054,525
LOCATION: MAGEE, SIMPSON COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Magee Benevolent Association dba Magee General Hospital (MGH) is a short-term, general acute care, not-for-profit corporation located in Magee, Simpson County, Mississippi. The hospital is presently governed by an eight-member Board of Directors. The facility is certified to participate in the Medicare and Medicaid programs. The licensed bed complement of MGH consists of 64 short-term, general acute care beds.

B. Project Description

Magee Benevolent Association dba Magee General Hospital requests Certificate of Need (CON) authority to purchase a 51% ownership interest in The Medical Towers (MOB) at Tuscan Court, LLC. The building is located at 300 Third Avenue Southeast, Magee, Mississippi 39111. Tuscan Court (TC) and the Bulger Family Living Trust are the current owners of the MOB or medical towers. After approval of the CON application and transactions are completed regarding the MOB, MGH will own 51% majority interest and a physician will hold 49% interest. 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.

Briefly, TC applied for a CON and was issued a CON on December 15, 2005 for the following project:

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

The medical office building (MOB) is 47,347 square feet of space and the building is constructed on 31,000 square feet of land owned by Magee Benevolent Association d/b/a Magee General Hospital (MGH). The property is located next to MGH in General Hospital Service Area (GHSA) 3. The MOB was built to provide space for the high volume of patients visiting doctors at the hospital.

The Medical Towers at Tuscan Court, LLC submitted a Determination of Reviewability (DR) application to the Mississippi State Department of Health (MSDH) on December 4, 2010 requesting to surrender CON # R-0701 on CON Review # FSF-MOB-0905-035. The CON was for the construction of a MOB on the property of Magee General Hospital. Based on documentation provided with the DR application, staff determined that there were no common ownerships or other financial arrangements between The Medical Towers at Tuscan Court, LLC and Magee General Hospital, except for the proposed arrangements disclosed in the DR application. Thus, MSDH ruled that Medical Towers at Tuscan Court, LLC could proceed with its plan to surrender CON# R-0701 relating to the MOB without obtaining a CON.

The purpose of the proposed project is for MGH, a health care facility, to adhere to CON requirements/law by requesting for CON authority to purchase majority ownership of the MOB for \$1,250,000. If CON approved, Magee Benevolent Association dba Magee General Hospital will have control of the MOB.

All necessary verification regarding the construction of The Medical Towers (MOB) at Tuscan Court, LLC project was provided in the CON application referenced above. Also, the project was in compliance with all regulations listed in the application.

The applicant provided schematics from the architect and verified that it cost \$136.49 per square foot to construct the MOB. The applicant will not hire staff; however, healthcare providers will employ personnel for their office based on who is needed.

The applicant includes a capital expenditure summary, a three-year projected operating statement, and Financial Statements for 2009, 2010, and 11 months of 2011 along with a letter from the Chief Financial Officer of Magee Benevolent Association. The facility received site approval from the Mississippi Department of Health, Division of Licensure and Certification. MGH will use two loans from different sources to purchase the interest in the MOB. The applicant affirms that funding/financing for the construction cost of \$7,054,525 was completed after the Department issued a Determination of Reviewability ruling on January 24, 2011 to construct the MOB. Upon the approval of the project, the project will be completed within 30 days, June 2012.

II. TYPE OF REVIEW REQUIRED

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 June 6, 2012.

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

A. State Health Plan (SHP)

The *FY 2012 Mississippi State Health Plan (FY 2012 MSHP)* 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. However, the Plan does not address criteria and standards for the purchased of majority interest in a constructed medical office building. Since a hospital care facility is purchasing the interest in the MOB, the

hospital facility must adhere to CON requirements/law to request CON authority to purchase majority ownership of the MOB. The application is in compliance with applicable criteria and standards.

SHP Criterion 1- Need

Magee General Hospital states the MOB has been constructed and the need is evident through full occupancy of the building by physicians who needed additional office space to see their patients. Although patient needs are of upmost importance to MGH, the applicant believes that providing additional office space for physicians so they can be accessible to their patients will aid in the retention and recruitment of doctors especially, in a rural setting. Thus, hospital officials evaluated the needs of MGH's and decided to request to purchase majority interest of the MOB through a CON to allow doctors to be readily available to their patients at the MOB and the hospital.

Since the proposed project relates to the MOB and doesn't involve the addition of beds, acute care beds or services or expansion of the facility's emergency departments or pertain to items listed in the *FY 2012 MSHP* under the need criterion, this project will not have an adverse impact on existing facilities in GHSA 5.

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 5; thus, this criterion is not applicable to the proposed project.

SHP Criterion 3 - Charity/Indigent Care

Magee General Hospital affirms that it will provide a "reasonable amount" of indigent/charity care as described in Chapter I of the *FY 2012 MSHP*.

SHP Criterion 4 - Cost of Proposed Project

At the time the application was reviewed (CON REVIEW# FSF-MOB-0905-035), The Medical Towers at Tuscan Court, LLC estimated the cost to construct a 48,000 square feet of space medical office building to be \$79.43 per square foot. The Medical Towers at Tuscan Court stated in the CON application that the project did 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* and the facts presented in the application, staff determined that the proposed project would be below the median construction cost of \$110.

After completion of the MOB construction project, MGH determined that the cost per square foot was \$136.49 and asserts that the cost is reasonable and in line with prior approved MOB projects.

SHP Criterion 5 - Floor Area and Space Requirements

At the time of application, The Medical Towers at Tuscan Court, LLC indicated that the proposed project was comparable to both state and national norms for similar projects. Magee General Hospital asserts that the estimated square footage of the MOB was 48,000; however, 47,347 square feet was constructed. The applicant states that the design and office square footage was created to address the present and future needs of the physicians.

Staff determined that the proposed project is not an existing facility nor does the Department have to review special considerations due to local conditions.

SHP Criterion 6 – Cost of Proposed Renovation or Expansion Project

The applicant asserts the proposed project is not a renovation or expansion project or a replacement facility. Thus, the proposed project does not pertain to SHP Criterion 6.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, 2011 revision*, addresses general criteria by which all CON applications are reviewed. This application is in substantial compliance with general review criteria.

GR Criterion 2 - Long Range Plan

The applicant states the long range development plan of MGH is to provide patients adequate access to physicians in order to deliver quality healthcare to residents in GHSA 5. Thus, this project is in compliance with this criterion.

GR Criterion 3- Availability of Alternatives

Staff determined that The Medical Towers at Tuscan Court, LLC considered two alternatives in their initial CON application regarding existing space at MGH; however, both proved to be inadequate solutions to MGH's office space problems. The applicant submits that that constructing a new medical office building on MGH's property next to the MGH's existing hospital was the only feasible option available to meet their long range goals.

GR Criterion 4 - Economic Viability

The applicant provided a three-year projected operating statement and indicated that net revenue over a projected three year period will increase from \$22,334,326 to \$24,934,245. The statement shows that the net income for the first year will be a deficit of \$(1,094,687); however, it will increase from \$68,141 to \$777,524 for years two and three.

Based on revenue listed in the three-year operating statement, the applicant's Chief Financial Officer (CFO) submitted a letter stating that the project will be financially feasible. Also, the CFO states that the Three Year Income Statement illustrates the probable effect of the expenditure on present and future operating costs. The applicant asserts that the projected revenues are based on rent expected to be received from executed leases. The applicant states that the capital expenditure was funded/financed after a January 24, 2011 Determination of Reviewability ruling was issued by the Department. The facility states two loans from two sources will be used to purchase the interest in the MOB. A depreciation schedule for the MOB was provided for years one through three.

Since this project involves purchase of majority interest of a medical office building, the proposed project will not require charges or costs for healthcare services nor does MGH project any utilization statistics or an impact on the Medicaid program operated by the Mississippi State Division of Medicaid.

Based on the projections listed in the three-year operating statement, all financial requirements will be met during the projected years and thereafter. Thus, this proposed project will be financially feasible (See Attachment 1-it represents Table 5C listed in the application).

GR Criterion 5 - Need for the Project

The applicant affirms that all residents of GHSA 5, 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 MGH.

Staff reviewed the initial application submitted by The Medical Towers at Tuscan Court, LLC and TC determined that there was a need to build a new medical office building in order to centralize patients and doctors in designated areas.

During that time, MGH physicians and visiting specialists were dispersed throughout the hospital and in current medical office space on the hospital's campus. The lack of centralization posed the following problems for patients: it hindered patients from moving about the facilities freely; the maze-like office locations caused confusion for some patients; the registration process became complicated; waiting areas became overcrowded; and the confined areas and exam rooms were demanding on patients with mobility equipment.

In this case, MGH believes the proposed project will provide patients with quality service and better access to doctors on the hospital's campus. Also, patients and physicians and/or healthcare providers who occupy the medical office building will continue to have access to the building after the completion of this proposed project.

The applicant indicates that project does not involve relocating or a replacing a facility or services; thus, the MGH asserts the MOB will not have an impact on other hospitals or facilities in GHSA 5. In the application, MGH includes several letters of support for the proposed project from the medical professionals in the community.

GR Criterion 6 -Accessibility

The facility asserts that MGH's current payor mix in GHSA 5 for Medicare, Medicaid, commercial pay, and self pay is: 32%, 17%, 55%, and 3% respectively. The applicant lists historical and projected gross patient revenue in dollar amounts and percentages for medically indigent and charity care within the application. The facility states by increasing access to physician services, the project will address unmet needs of Medicare, Medicaid, and medically indigent patients.

As previously stated above, MGH will serve all patients in GHSA 5 without respect to race, color, age, sex, ethnicity, or ability to pay. The applicant asserts that the MOB is in the heart of Magee and minutes from Highway 49 while the main entrance is located on Highway 28-both are on business routes. The hours of operation for the MOB will be created by the physicians for their offices; however, the hospital will operate 7 days per week, 24 hours per day.

GR Criterion 7- Information Requirement

The applicant affirms that MGH 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 MGH is only enhancing their facility by continuing to provide additional space, access, and services to the patients as well as the physicians. If the MOB had not been constructed, MGH states it would have been more difficult for the facility to recruit and retain doctors. Magee General Hospital affirms that there are no transfer or affiliation agreements associated with the MOB.

Thus, the applicant asserts that this project will not have an adverse impact on existing facilities in GHSA 5.

GR Criterion 9 - Availability of Resources

The applicant contends that MGH maintains a full complement of professional/support staff and is in compliance with federal/ state regulations regarding staffing standards. The proposed project will not require any clinically related contractual service.

GR Criterion 10 - Relationship to Ancillary or Support Services

The applicant asserts that the project does not intend to provide healthcare services, thus, this criterion is not applicable to the proposed project.

GR Criterion 11- Health Professional Training Programs

The applicant asserts the MOB is not providing healthcare services and the MOB will not have an effect upon the health professional training programs in GHSA 5.

GR Criterion 12- Access by Health Professional Schools

The MOB does not intend to provide healthcare services, thus, this criterion is not applicable to the proposed project.

GR Criterion 13- Services Outside of GHSA 5

The MOB does not intend to provide healthcare services, thus, this criterion is not applicable to the proposed project.

GR Criterion 14 - Construction Projects

The applicant submitted a capital expenditure of \$7,054,525. The capital expenditure includes the construction cost, fees, legal and accounting fees, and other specified cost (structural steel, security system, signage, furniture, etc). The application includes a site approval letter from the Division of Health Facilities Licensure and Certification and includes schematic drawings to show how the MOB looks after the construction process was completed.

Since the MOB is complete, it appears the project completed by TC complied with state and local building codes, zoning ordinances, and all appropriate regulatory authorities. In the initial application, TC provided written assurance that TC will comply with state statutes and regulations for the protection of the environment.

In TC's initial application, 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. At that time, the applicant stated that the cost of constructing 48,000 square feet of new space would be \$79.43 per square foot.

Tuscan Court indicated that the cost to construct the medical office building would be 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 TC at that time and the new construction formula listed in the *Plan*, staff determined it would cost \$77.35 per square foot to complete the project. The cost was below the low end of the range for construction costs associated with a medical office building.

Magee General Hospital verified that it cost \$136.49 per square foot to construct the 47,347 square feet MOB.

GR Criterion 16 - Quality of Care

The Magee General Hospital affirms that it is licensed by MSDH and is certified to participate in the Medicare and Medicaid programs.

The applicant asserts that the MOB has improved the quality of care by enabling physicians to have ready access to their patients in MGH.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

Cost Item	Projected Cost	% of Total
Construction Cost - New	\$6,054,525	85.82%
Construction Cost - Renovation		
Capital Improvements		
Total Fixed Equip Cost		
Total Non-Fixed Equip Cost		
Land Cost	\$104,000	1.47%
Legal and Accounting Fees	\$225,000	3.19%
Site Prep Cost		
Fees (Architectural, consultant, etc)	408,750	5.79%
Contingency Reserve		
Capitalized Interest		
Other Cost (Structural Steel, Security System, Signage, Furniture, etc)	225,000	3.19%
Total Proposed Expenditures	\$ 7,054,525	99.46% or 100.00%

Magee General Hospital verified that it cost \$136.49 per square foot to construct the 47,347 square feet MOB.

B. Method of Financing

Magee General Hospital will obtain two loans from two sources totaling \$1,250,000 to purchase interest in the MOB. The applicant asserts that a private source and Trustmark Bank expressed interest in financing the loans for 10 years at an interest rate of AFR and 5 percent. The capital expenditure cost of \$7,054,525 was funded and financed after the Department's January 24, 2011 ruling on a DR (see details above under Project Description). A financial feasibility statement from the CFO and the income statements demonstrate that MGH has sufficient capital to fund the project.

C. Effects on Operating Costs

For the *Proposed Project (Only)*, the applicant projects rental income/interest income of \$1,033,270, \$1,053,699, and \$1,064,251 the first, second, and third year of operation, respectively, and expenses of \$819,936, \$809,904, and \$804,449 for the first three years of operation. The applicant projects a first year net income of \$213,334, \$243,795, and \$259,802 in years one through three, respectively.

The applicant provided a three-year projected operating statement and indicated that net revenue over a projected three year period will increase from \$22,334,326 to \$24,934,245. The statement indicates that MGH will show a loss of \$(1,094,687) for the first year and net income for the second and third years will increase from \$68,141 to \$777,524. The proposed project involves purchasing majority interest in a constructed 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-it represents Table 5C listed in the application).

D. Cost to Medicaid/Medicare

Magee General Hospital asserts that the MOB project should not have any impact on Medicaid or Medicare and Medicaid does not pay for MOB. The applicant also states Medicare does not provide direct reimbursement for MOB capital costs.

V. RECOMMENDATION OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for comment and the Department received written comments from the Division stating there will be no impact on annual cost to Medicaid for hospital inpatient and outpatient services.

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 *FY 2012 Mississippi State Health Plan*; Chapter 8 of the *Mississippi Certificate of Need Review Manual, Revised 2011*; 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 submitted by Magee Benevolent Association dba Magee General Hospital (MGH) to purchase majority interest in The Medical Towers at Tuscan Court, LLC.

**ATTACHMENT I
 MAGEE GENERAL HOSPITAL
 THREE YEAR OPERATING STATEMENT**

MAGEE BENEVOLENT ASSOCIATION				
Purchase of Interest in Owner of Medical Office Building				
TABLE 5C				
INCOME STATEMENT WITH PROJECT				
	Latest Actual	Proposed Year 1	Proposed Year 2	Proposed Year 3
Revenue				
Inpatient Care Revenue	\$ 18,790,752	\$ 18,602,845	\$ 18,416,816	\$ 18,232,648
Outpatient Care Revenue	40,471,446	40,899,017	42,008,432	43,239,219
Gross Patient Care Revenue	\$ 59,262,198	\$ 59,501,861	\$ 60,425,249	\$ 61,471,867
Charity Care	\$ 763,663	\$ 2,397,403	\$ 2,397,403	\$ 2,397,403
Deductions from Revenue	38,167,424	37,559,311	35,961,042	35,961,042
Net Patient Care Revenue	\$ 20,331,112	\$ 19,545,148	\$ 22,066,804	\$ 23,113,422
Other Operating Revenue: Rental Income	\$ 1,649,277	\$ 2,789,178	\$ 2,110,271	\$ 1,820,823
Total Operating Revenue	\$ 21,980,389	\$ 22,334,326	\$ 24,177,075	\$ 24,934,245
Operating Expense				
Salaries	\$ 9,479,097	\$ 9,029,097	\$ 9,479,097	\$ 9,479,097
Benefits	770,325	582,916	770,325	770,325
Supplies	7,772,563	7,826,253	7,866,051	7,905,694
Services	3,184,785	3,473,876	3,498,991	3,524,038
Lease	-	-	-	-
Depreciation	1,408,031	1,882,535	1,871,501	1,865,924
Interest	329,692	584,074	571,897	559,747
Other	-	50,261	51,072	51,896
Total Operating Expense	\$ 22,944,494	\$ 23,429,012	\$ 24,108,934	\$ 24,156,721
Net Operating Income (Loss)	\$ (964,105)	\$ (1,094,687)	\$ 68,141	\$ 777,524
	Latest Actual	Proposed Year 1	Proposed Year 2	Proposed Year 3
Inpatient days	4,991	4,941	4,892	4,843
Outpatient visits	N/A	#VALUE!	#VALUE!	#VALUE!
Procedures	1,706	1,815	1,933	2,059
Charge per outpatient day	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Charge per inpatient day	\$ 3,765	\$ 3,765	\$ 3,765	\$ 3,765
Charge per procedure	\$ 34,738	\$ 32,783	\$ 31,260	\$ 29,861
Cost per inpatient day	\$ 4,597	\$ 4,742	\$ 4,929	\$ 4,988
Cost per outpatient day	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Cost per procedure	\$ 13,449	\$ 12,909	\$ 12,472	\$ 11,734

Note: # VALUE! denotes \$0. Applicant's totals may be off by \$1 due to rounding.