

**MISSISSIPPI STATE DEPARTMENT OF HEALTH  
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT  
JUNE 2012**

**CON REVIEW: HG-MOB-0312-010  
SOUTH CENTRAL REGIONAL MEDICAL CENTER  
CONSTRUCTION OF A MEDICAL OFFICE BUILDING AND  
RELOCATION/DEVELOPMENT OF ONE OPERATING ROOM SUITE  
CAPITAL EXPENDITURE: \$2,851,449  
LOCATION: LAUREL, JONES COUNTY, MISSISSIPPI**

**STAFF ANALYSIS**

**I. PROJECT SUMMARY**

**A. Applicant Information**

South Central Regional Medical Center (SCRMC) is a short-term, general acute care, non-profit hospital owned by Jones County. The hospital is governed by a seven-member Board of Trustees appointed by the Jones County Board of Supervisors and an eight-member management staff.

The facility is licensed for 285 acute care beds, including 10 adult chemical dependency beds.

The occupancy rates, average lengths of stay (ALOS), and Medicaid utilization rates for the three most recent years for SCRMC (medical/surgical beds only) are shown below:

**South Central Regional Medical Center  
Utilization Data**

<b>Fiscal Year</b>	<b>Occupancy Rate (%)</b>	<b>ALOS (Days)</b>	<b>Medicaid Utilization Rate (%)</b>
2009*			
2010	36.09	4.74	22.11
2011	35.78	4.88	21.13

**Source:** Division of Health Facilities Licensure and Certification, Mississippi State Department of Health, (MSDH)

**Note:\*** South Central Regional Medical Center's FY 2009 Annual Hospital Report was not available prior to posting of this staff analysis.

**B. Project Description**

South Central Regional Medical Center requests Certificate of Need (CON) authority to construct an 11,920 square-foot medical office building and to relocate and develop one operating room (OR) suite. The new MOB will house two employed physician practice clinics and an outpatient specialty surgery suite in Laurel, Jones County, Mississippi. The two physician clinic spaces will be 5,892 square foot clinic for South Central Dermatology Clinic and 3,966 square foot clinic will be for Cosmetic and Plastic Surgery Center of South Central Mississippi. The remaining tenant space is for a 2,062 square foot one operating room multi-specialty outpatient surgery suite. The one (1) operating room/suite will be operated by and relocated from SCRMC's current outpatient surgery department to the proposed new MOB, which is a distance of less than a mile. SCRMC currently has 8 licensed operating rooms and one (1) procedure room (according to FY 2011 Application for Renewal of Hospital License, MSDH).

The proposed project has the following two components:

**The first component** is the construction of an 11,920 square foot medical office building.

**The second component** is to create one (1) operating room additional specialty outpatient surgery suite in the MOB within one mile of the hospital's outpatient surgery department and to relocate one OR from SCRMC outpatient surgery department to the space in the MOB. The applicant asserts that the second component of this project simply involves the closing of two (2) OR's in SCRMC outpatient surgery department and the relocation of one of those two ORs from the SCRMC outpatient surgery department to the MOB. This component of the project is simply the relocation of a part of the SCRMC outpatient surgery department to a new location less than a mile away. No major medical equipment is being acquired or relocated in this project. No change of ownership of an existing health care facility is being accomplished in this proposed project. Two operating rooms in the SCRMC outpatient surgery department will be closed at SCRMC due to staffing and safety precautions and one of those ORs will be relocated to the MOB. The nursing and support staff necessary to operate the relocated OR will move to the MOB with the OR.

The applicant contends that South Central Regional Medical Center or an affiliate thereof owns land located at 1410 Jefferson Street in Laurel, Jones County, Mississippi. SCRMC or its affiliate will build the medical office building in the clinic practices of Cosmetic and Plastic Surgery Center and South Central Dermatology Clinic and one (1) operating room surgery suite of the outpatient surgery department of SCRMC at 1410 Jefferson Street located within a mile of the hospital.

The applicant states that no new health care facility is being constructed, established, or developed in this project. SCRMC contends that the proposed surgery suite is not a healthcare facility itself, but rather a portion of the existing outpatient surgery department of SCRMC. No change in bed compliment is accomplished in the proposed project, no new designated health services are being proposed in this project and no health facility or service is being relocated more than a mile in this project.

The total proposed capital expenditure is \$2,851,449 and of that amount, approximately 74 percent will be for new construction, 11 percent for non-fixed equipment, 4.14 percent for fees (architectural, consultant, etc), 9 percent for contingency reserve, and 1.40 percent for capitalized interest. The applicant indicates that the fixed equipment included in the construction cost of the MOB will be the HVAC system which costs \$196,065. Also, the site preparation cost is \$191,400 and is included in the new construction cost of the proposed MOB.

The applicant intends to finance \$551,449 of the proposed capital expenditure from cash reserves and \$2,300,000 will be financed through a commercial loan from BanCorp South.

The applicant asserts that the anticipated date for obligation of the project's capital expenditure is immediately upon CON approval and that the project is expected to be completed within 24 months of final CON approval.

## 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 July 16, 2012.

## III. CONFORMANCE WITH THE STATE HEALTH 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 an applicant is required to meet before receiving Certificate of Need (CON) authority for the construction, renovation, expansion, capital improvements, replacement of health care facilities, and addition of hospital beds. This application is in compliance with applicable criteria and standards.

#### **SHP Criterion 1- Need**

**Projects which do not involve the addition of any acute care beds:** The applicant shall document the need for the proposed project. Documentation may consist of, but is not limited to, citing of licensure or regulatory code deficiencies, institutional long-term plans (duly adopted by the governing board), recommendations made by consultant firms, and deficiencies cited by accreditation agencies (JCAHO, CAP, etc.). In addition, for projects which involve construction, renovation, or expansion of emergency department facilities, the applicant shall include a statement indicating whether the hospital will participate in the statewide trauma system and describe the level of participation, if any.

South Central Regional Medical Center proposes construction of a medical office building and relocation/development of one operating room suite. The proposed project involves the construction of a MOB and the expansion of the outpatient surgery department of SCRMC by constructing a single OR specialty surgery suite in the MOB within a mile of the existing outpatient surgery department of SCRMC. No beds are involved.

The applicant indicates that SCRMC was built in 1952 to serve Laurel, Jones County and surrounding areas. In the ensuing years, SCRMC has grown and expanded its healthcare service by offering to become a major medical center in South Central Mississippi. To further the search for physicians to serve the community and broaden the areas healthcare services, SCRMC recruited one dermatologist in 2010 and recruited another dermatologist and a cosmetic and plastic surgeon in 2011 to practice in Laurel. SCRMC also recruited an additional general surgeon who commenced his practice in Laurel in the Summers of 2010 and 2011 as South Central Dermatology Clinic. Dr. Hossein Nasajpour, the cosmetic and plastic surgeon, commenced practice in Laurel in the summer of 2011 in the clinic name of Cosmetic and Plastic Surgery of South Central Mississippi. In 2011 SCRMC started planning for the construction of a medical office building to house South Central Dematology Clinic, Cosmetic and Plastic Surgery of South Central Mississippi and perhaps other physician clinics in proximity to the hospital. The applicant states that when Dr. Nasajpour, Dr. Roy and Dr. Adams commenced their practices in Laurel they commenced performing their outpatient surgeries in the outpatient surgery department of SCRMC.

South Central Regional Medical Center states that the unique specialty nature of Dr. Nasajpour's practice, the unique equipment required for some of his surgeries, the unique nature of his patient base and the desire of the majority of his patients for confidentiality in relation to even having the surgery militate for a specialty surgery suite in a relatively discrete location. Since the nature of the patient base of Dr. Nasajpour's practice requires unique privacy considerations for both the waiting and recovery areas of the surgery suite he uses, and more space in the outpatient surgery department of SCRMC is needed to facilitate his practice in the outpatient surgery department of SCRMC. After the 2008 renovation of the hospital's surgery suites, the applicant indicates there really isn't any additional adjacent space to build a specialty waiting or specialty recovery area in the outpatient surgery department of SCRMC. The hospital board considered the creation of specialty waiting and recovery areas in the outpatient surgery department of the hospital and other alternatives to help solve this problem. However, when the proposed MOB was first discussed and the hospital board learned that Dr. Nasajpour was considering locating his clinic in the MOB, the relocation of one operating room/surgery suite from the hospital to the MOB became an option for the issue of the reconfiguration of the outpatient surgery department of SCRMC and the hospital board concluded that the relocation of an existing surgery suite to the proposed MOB within a mile of the hospital is the most effective option available to accomplish the needs of the hospital and community.

SCRMC contends that it participates in the statewide trauma system by contributing payments to the trauma system as a Level III center. However, the proposed project does not involve the construction, renovation or expansion of emergency department facilities.

The following table shows the inpatient and outpatient surgery utilization for the past two years.

**SCRMC's Surgery Utilization (FY 2010-FY2011)**

	FY 2010	FY 2011
Inpatient	1,903	871
Outpatient	2,894	3,516
<b>Total</b>	<b><u>4,797</u></b>	<b><u>4,387</u></b>

**Source:** Application for Renewal of Hospital License, MSDH

**SPH Criterion 2 - Bed Service Transfer/Reallocation/Relocation**

This project does not propose the transfer, reallocation, or relocation of beds.

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

The applicant affirms that it has historically provided a reasonable amount of medically indigent/charity care and that it will continue to do so at similar levels.

South Central Regional Medical Center asserts that 6.2 percent of its gross patient revenue in 2011 was provided for medically indigent care patients. The applicant asserts that SCRMC reports only medically indigent figures since it treats medically indigent and charity care. The applicant states both categories are reviewed as synonymous terms.

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

- a. **Cost per Square Foot:** The applicant states that the proposed project consists of approximately 11,920 square feet of new construction at \$214.05 per square feet. The RSMeans Building Construction Cost Data, 2012 Edition states that the cost per square foot ranges from \$115 - \$175 for the construction of medical office buildings.
- b. **Equipment Cost:** According to the applicant, the purchased of fixed and non-equipment equipment are planned for the proposed facility. See the capital expenditure summary of this staff analysis.

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

The applicant asserts that the gross square footage of the proposed project is 11,920. The application contains a cost estimate prepared by FoilWyatt Architect and Planners, PA of Jackson, Mississippi.

According to the applicant, SCRMC has complied with all applicable zoning, building and other land use planning regulations for 60 years and the proposed project does and/or will comply with same.

### **SHP Criterion 6 – Renovation vs. Expansion Project**

This project is for the construction of a medical office building and relocation/development of one operating room suite. No renovation is required for this project.

### **SHP Criterion 7 – Need for Specific Services**

The proposed project is for the construction of medical office building and relocation/development of one operating room suite. An outpatient surgery suite will be relocated from the outpatient surgery department of SCRMC to the newly constructed MOB. The build-out of physician clinic spaces and the build-out of the outpatient surgery suite will be included in the proposed project. In this case, the outpatient surgery suite will be within one existing OR. The applicant is not proposing to expand any services.

## **B. General Review (GR) Criteria**

Chapter 8 of the *Mississippi Certificate of Need Review Manual, September 1, 2011, Revision*, addresses general criteria by which all CON applications are reviewed. This application is in substantial compliance with general review criteria.

### **GR Criterion 1 – Consistency with the State Health Plan**

The application submitted by South Central Regional Medical Center for the construction of a medical office building and the relocation/development of one operating room suite is consistent with the *FY 2012 State Health Plan*.

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

The applicant states that the proposed project is consistent with the long range strategic plan adopted by the Board of Trustees of SCRMC for the provision of high quality, accessible, cost effective, efficient services to the communities and areas served by SCRMC. Furthermore, this project comports with SCRMC's goal to provide quality, efficient, modern healthcare to all residents of Jones County and surrounding areas, which has been an ongoing goal and part of SCRMC's strategic plans since SCRMC's founding.

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

The applicant considered four (4) alternatives before proceeding with the proposed project:

**Status Quo:** SCRMC contends that it could continue operating as it has been without additional medical office space for physicians and without addressing the outpatient surgery suite capacity, suitability, cosmetic and plastic surgery confidentiality issues. The failure to address such issues will impede the growth of those new practices, services, and produce unsatisfactory health care services to the patients of those new practices. This alternative was rejected because such decision would not be in the interest of SCRMC's patients.

**Reconfiguration:** According to SCRMC, the hospital could elect to build a new facility at the hospital to house a specialized outpatient surgery suite within SCRMC's existing outpatient surgery department. This option was rejected as impractical, both from a location and available space perspective and because it would be by far more expensive alternative to resolve the problems. The capital expenditure for such an alternative would be substantially greater than described herein and such an option would be the most disruptive option to patients and to the surgery service.

Additionally, the applicant asserts that if SCRMC was to build a new outpatient ambulatory surgery department facility on SCRMC's campus, it would be at greater capital and operating costs to Medicaid and Medicare and to the health care system as a whole.

**Relocation and Replacement:** SCRMC asserts that it could elect to build a new outpatient surgery department facility on campus to facilitate the creation of a specialized outpatient surgery suite to accommodate the unique needs of cosmetic and plastic surgery. This option was rejected as impractical because it would be a far more expensive alternative involving a much greater capital expenditure than even the option discussed immediately above. Also, it would cause significant patient and surgery service disruption.

**Selected Option:** SCRMC contends that the proposed project is the most cost effective and efficient means of effecting the facilitation of the need for new and additional physician clinic space and for the confidentiality and additional surgical space issues sought to be addressed by the proposed project. It also is the method that would be least disruptive of patient care at SCRMC in the process.

The applicant asserts that none of the other alternatives is as attractive or economical as the selected alternative.

#### **GR Criterion 4 - Economic Viability**

According to the applicant, the three-year projected operating statement contained in the application indicates net income of \$24,450 the first year, \$60,163 the second year, and \$96,986 the third year of operation.

The proposed project is for the construction of a medical office building and relocation/development of one operating room suite. The applicant asserts that the projected utilization is based upon the projected need in the community which is consistent with the level of outpatient surgeries in GHSA 8 and is supported by Dr. Nasajpour's physician affidavit projecting the number of surgeries he expects to perform in that outpatient surgery suite over the next three (3) years (after CON approval). The doctor's projections are based upon the examination of his volume of outpatient surgeries performed in the time he has been practicing in Laurel and the growth path of his practice he anticipates. The application contains an affidavit of Dr. Nasajpour, which projects 300 outpatient procedures annually for the proposed project.

The application contained a letter signed by the hospital's chief financial officer (James T. Canizaro, Vice-President and Chief Financial Officer) asserting that the project is financially feasible.

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

- a. **Access by Population Served:** South Central Regional Medical Center asserts that it is evidenced by its long term strategic plan, the provision and delivery of a comprehensive healthcare system throughout the Laurel/Jones County/South Central Mississippi area is a strategic priority of SCRMC. South Central Regional Medical Center asserts that it serves all residents of the health planning service area, hospital service area and patient service area of the population. The applicant asserts it serves Medicaid, charity/medically indigent patients, racial and ethnic minorities, women, and handicapped persons and the elderly and affirms the above mentioned will continue to have access to the services of the existing facility.
- b. **Relocation of Services:** The applicant indicates that Laurel/Jones County/South Central Mississippi area's acute care inpatient medical needs have been being served by SCRMC for 60 years. The MOB component of this project does not propose new services or the expansion of services. SCRMC proposes the creation of medical office space to support the successful practices of recruited physicians. The outpatient surgery suite component of this project also does not propose new services, but rather the expansion of the existing outpatient surgery department of SCRMC. In a way, the surgery suite will support the successful practices of recruited physicians. SCRMC will continue to provide a full range of high quality primary inpatient and outpatient services.
- c. **Current and projected Utilization of Like Facilities in the Area:** According to SCRMC, the level of utilization of outpatient surgery service at SCRMC is reasonably consistent with those experienced by other facilities in GHSA 8. As to the proposed relocated outpatient surgery suite from SCRMC existing outpatient surgery department, the projected utilization is based upon the projected need in the community which is consistent with the level of outpatient surgeries in GHSA 8 and is supported by Dr. Nasajpour's letter projecting the number of surgeries he expects to perform in that outpatient surgery suite over the next three years (after CON approval). The doctor's projections are based upon the examination of his volume of outpatient surgeries performed in the time he has been practicing in Laurel and the growth path of his practice he anticipates. The applicant asserts that the unique need of cosmetic and plastic surgery patients for delivery of service (both clinical and surgical) in a confidential location and setting are not being met at present. The application contains one physician affidavit of Hossein Nasajpour, M.D. for the proposed project. See attachment 1 for SCRMC's projected number of multi-specialty outpatient surgery procedures for the proposed project.

**Selected Hospital Affiliated Ambulatory Surgery  
 Utilization for GHSA 8**

Total # of Surgeries	Number of Hospitals	Number of Ambulatory Surgeries	Ambulatory Surgeries/Total Surgeries (%)	Number of Operating Rooms/Suites	Average # of Surgical Procedures per Day/Suite
24,176	5	12,827	53.1	39	2.48

**Source:** Applications for Renewal of Hospital License for Calendar Year 2011 and FY 2010 Annual Hospital Report.

**Selected Freestanding Ambulatory Surgery  
 Utilization for GHSA 8**

County	Number of Freestanding Ambulatory Surgery Centers	Number of Ambulatory Surgeries Performed	Number of Operating Rooms/Suites	Number of Surgical Procedures Per Day/OR Suite
Forrest	4	12,884	16	3.22
Jones	1	3,840	4	3.84

**Source:** Survey of individual ambulatory surgery centers conducted April 2011; Division of Health Planning and Resource Development, MSDH.

South Central Regional Medical Center believes that in order to meet its long range planning goals and continue to meet the needs of its patients, the hospital's board of trustees determined that the hospital's expanding and diversifying medical staff and outpatient surgery demands for bigger, more technologically specific and patient confidentiality will enhance the surgery suites. SCRMC affirms that its growing medical staff militate and justify the building of the proposed MOB.

The applicant believes that failure to implement the proposed project will adversely affect SCRMC's ability to attract physicians and will adversely affect the productivity of the practices of the dermatologists and plastic surgeon it recently recruited. Failure to implement the proposed outpatient surgery suite component of the project will adversely affect both the multi-specialty outpatient surgery capacity of SCRMC outpatient surgery department and the cosmetic and plastic surgery outpatient surgery service of SCRMC, causing patients to migrate out to other communities.

The application contains one letter of support from the Economic Development Authority of Jones County and the Jones County Chamber of Commerce and one physician affidavit of Hossein Nasajpour, M.D. for the proposed project.

The Department received no letters of opposition concerning the proposed project.

**GR Criterion 6 – Access to the Facility or Services**

- a. **Medically Underserved Population:** As previously mentioned, South Central Regional Medical Center asserts that it serves all residents of the health planning service area, hospital service area and patient service area of the population, including Medicaid, charity/medically indigent patients, racial and ethnic minorities, women, and handicapped persons and the elderly and will continue to have access to the services of the existing facility.
- b. **Performance in Meeting Federal Obligations:** The applicant submits that the Hill-Burton obligations of SCRMC were met a number of years ago through the significant amount of uncompensated care provided by South Central Regional Medical Center over the years.
- c. **Unmet Needs to be Served by Applicant:** The applicant submits that the percentage of gross patient revenue (GPR), actual and projected dollar amount of health care provided to medically indigent patients for the last two years, and projections for the next two years of operation are as follows for this project:

	GPR % Medically Indigent	GPR Dollar Amount
Historical Year 2010	6.2	\$ 1,095,066
Historical Year 2011	6.2	\$ 1,117,414
Projected Year 1	6.2	\$ 1,139,762
Projected Year 2	6.2	\$ 1,150,323

As previously mentioned, the applicant asserts that SCRMC reports only medically indigent figures because it views medically indigent and charity care as synonymous terms.

The MOB will be located at 1410 Jefferson Street in Laurel, Jones County, Mississippi. The MOB will be within a mile of the main hospital campus of South Central Regional Medical Center.

According to SCRMC, the service area of the hospital is generally a radius of approximately 25 miles from SCRMC's campus. Most patients and/or their families have means of transportation to the hospital and have traditionally been able to access acute care and outpatient care at SCRMC as needed. Some patients have required and been able to obtain medical transport and ambulance services to access health care at SCRMC.

The medical office building will tentatively operate from 7:00 a.m. to 5:00 p.m. Monday through Friday, within 23.5 hour capacity.

**GR Criterion 7- Information Requirement**

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

### **GR Criterion 8 - Relationship to Existing Health Care System**

According to the applicant, there will be no probable effect on existing facilities of expanding the outpatient surgery department of SCRMC by the construction of an additional surgery suite in the MOB within a mile of SCRMC and due to the fact that substantially, all of Dr. Nasajpour's outpatient surgeries have been performed in the outpatient surgery department of SCRMC since his Laurel practice commenced in the Summer of 2011.

As previously mentioned, the Department received no letters of opposition concerning the proposed project.

Staff does not anticipate that this project will have an adverse impact on any of the existing providers in GHSA 8.

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

The applicant states that since the proposed project does not involve a new service, no additional personnel are expected to be recruited and/or hired. SCRMC has sufficient physicians on staff and employs sufficient nursing and technical staff at present to ensure proper implementation of the services currently offered and the continuation of those services. Nursing and technical personnel needed to staff the MOB outpatient surgery suite will be relocated there along with the relocation of the one operating room from SCRMC's existing outpatient surgery department. There is no plan to recruit new personnel since no new personnel are required. The applicant asserts that SCRMC has had a satisfactory staffing history for years.

### **GR Criterion 10 - Relationship to Ancillary or Support Services**

The applicant asserts that all necessary support and ancillary services for the project are available. The proposed project is the construction and operation of an MOB and the relocation of one operating room of the existing outpatient surgery department of SCRMC, which already has all necessary support and ancillary services available to them both.

### **GR Criterion 11- Health Professional Training Programs**

The applicant asserts that proposed project will have no effect on the clinical needs of health professional training programs in SCRMC's service area.

### **GR Criterion 12- Access by Health Professional Schools**

The applicant states that the proposed project will not affect the clinical needs of health professional training programs.

### **GR Criterion 14 - Construction Projects**

- a. **Cost Estimate:** The application contains a cost estimate prepared by FoilWyatt Architect and Planners, PA of Jackson, Mississippi.
- b. **Schematic Drawing:** The application contains a schematic drawing of the proposed construction project.

- c. **Space Allocations:** As previously mentioned, the applicant states that SCRMC has complied with all applicable zoning, and building code regulations for 60 years and the proposed project will comply with the same.
- d. **New Construction Projects:** This project involves the construction of an MOB and relocation/development of one operating room suite.

**Cost per square foot:** The applicant states that the proposed project consists of approximately 11,920 square feet of new construction at \$214.05 per square feet. The *RSMeans Building Construction Cost Data, 2012 Edition*, states that the cost per square foot ranges from \$115 - \$175 for the construction of medical office buildings.

**GR Criterion 16 - Quality of Care**

South Central Regional Medical Center is in compliance with the *Minimum Standards for the Operation of Mississippi Hospitals*, according to the Division of Health Facilities Licensure and Certification, MSDH.

The applicant asserts that South Central Regional Medical Center is accredited by DNV Healthcare, Inc. and NLAHO Hospital Accreditation Program.

**IV. FINANCIAL FEASIBILITY**

**A. Capital Expenditure Summary**

The total estimated capital expenditure is allocated as follows:

	<b>Item</b>	<b>Cost</b>	<b>Percent of Total</b>
a.	Construction Cost – New	\$2,098,354	74%
b.	Construction Cost – Renovation	0	0%
c.	Capital Improvements	0	0%
d.	Total Fixed Equipment Cost*	*	*%
e.	Total Non-Fixed Equipment Cost	300,000	11%
f.	Land Cost	0	0%
g.	Site Preparation Cost*	*	*%
h.	Fees (architectural, consulting, etc.)	118,055	4.14%
i.	Contingency Reserve	250,000	9%
j.	Capitalized Interest	40,000	1.40%
k.	Other (Personal Financing)	0	0%
	<b>Total Proposed Capital Expenditure</b>	<b>\$ 2,851,449</b>	<b>99.54%</b>

\*The applicant indicates that the fixed equipment included in the construction cost of the MOB would be the HVAC system which costs \$196,065. Also, the site preparation cost is \$191,400 and is included in the new construction cost of the proposed MOB.

South Central Regional Medical Center proposes to construct an 11,920 square feet medical office building and relocation/development of one operating room suite. The cost to construct the 11,920 square feet of space will be \$214.05 per square feet. The RSMeans Building Construction Cost Data, 2012 Edition states that the cost per square foot ranges from \$115 - \$175 for the construction of medical office buildings.

**B. Method of Financing**

As previously mentioned, the applicant intends to finance \$551,449 of the proposed capital expenditure from cash reserves and \$2,300,000 will be financed through a commercial loan from BanCorp South.

**C. Effect on Operating Cost**

The applicant's three-year projections of revenues and expenses for the first three years of operation are provided in Attachment 1 of this staff analysis.

**D. Cost to Medicaid/Medicare**

Based on the applicant's projections, SCRMC provides the following revenue source projections for each payor category listed below:

<b>Patient Mix by Type Payer</b>	<b>Utilization Percentage</b>	<b>First Year Revenue</b>
Medicaid	0%	0
Medicare	13%	43,762
Commercial	12%	38,638
Self Pay	75%	250,000
Charity Care	0%	0
Other	0%	0
<b>Total</b>	<b><u>100%</u></b>	<b><u>\$332,400</u></b>

**V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES**

The Division of Medicaid was provided a copy of this application and the Department received written comments from the agency. The correspondence indicates that the Division of Medicaid estimates that the increased annual cost to Medicaid to be \$10,703 for inpatient hospital services. Also, the letter states that any portion, which may relate to outpatient services will be paid as outlined in the State Plan. Thus, the Division opposes the project.

**VI. CONCLUSION AND RECOMMENDATION**

This project is in substantial compliance with the criteria and standards for construction, renovation, expansion, capital improvements, replacement of health care facilities, and addition of hospital beds as contained in the *FY 2012 State Health Plan*; the *Mississippi Certificate of Need Review Manual, September 1, 2011, 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 South Central Regional Medical Center for the construction of a medical office building and relocation/development of one operating room suite.

**South Central Regional Medical Center**  
**Three-Year Projected Operating Statement (Project Only)**  
**Attachment I**

	Year 1	Year 2	Year 3
<b>Revenue</b>			
Inpatient Care Revenue	0	0	0
Outpatient Revenue	\$332,400	\$359,048	\$385,729
<b>Gross Patient Revenue</b>	<b>\$332,400</b>	<b>\$359,048</b>	<b>\$385,729</b>
Charity	0	0	0
Deductions from Revenue	\$65,126	\$68,610	\$71,852
<b>Net Patient Care Revenue</b>	<b>\$267,274</b>	<b>\$290,438</b>	<b>\$313,877</b>
Other Operating Revenue	0	0	0
<b>Total Operating Revenue</b>	<b>\$ 267,274</b>	<b>\$ 290,438</b>	<b>\$ 313,877</b>
<b>Operating Expenses</b>			
Salaries	0	0	0
Benefits	0	0	0
Supplies	\$50,000	\$55,000	\$60,000
Services	0	0	0
Lease Expenses	0	0	0
Depreciation	106,643	\$106,643	\$106,643
Interest	86,181	68,632	50,248
Other	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Operating Expenses</b>	<b><u>\$242,824</u></b>	<b><u>\$230,275</u></b>	<b><u>\$216,891</u></b>
<b>Net Operating Income</b>	<b>\$ 24,450</b>	<b>\$60,163</b>	<b>\$96,986</b>
	<b>Proposed Year 1</b>	<b>Proposed Year 2</b>	<b>Proposed Year 3</b>
Inpatient days	0	0	0
Outpatient days	0	0	0
Procedures ( <b>multi-specialty</b> )	100	110	120
Charge per procedure	\$3,324	\$3,264	\$3,214
Cost per procedure	\$2,428	\$2,093	\$1,807
Charge per inpatient day	0	0	0
Charge per outpatient day	0	0	0
Cost per inpatient day	0	0	0
Cost per outpatient day	0	0	0

**Attachment 2**

**Computation of New Construction Cost\*\***

	<b>Cost Component</b>	<b>Total</b>	<b>New Construction</b>
A	New Construction Cost	\$2,098,354	\$2,098,354
B	Renovation Cost	0	0
C	Total Fixed Equipment Cost	*	*
	Total Non-Fixed Equipment Cost	\$300,000	
	Land Cost	0	0
D	Site Preparation Cost*	*	*
E	Fees (Architectural, Consultant, etc.)	\$118,955	\$118,955
F	Contingency Reserve	\$250,000	\$250,000
G	Capitalized Interest	\$40,000	\$40,000
	Other	0	\$0
	<b>Total Proposed Capital Expenditure</b>	<b>\$ 2,851,449</b>	<b>\$2,551,449</b>
	Square Footage	<b>11,920</b>	<b>11,920</b>
	Allocation Percent		100.00%
	<b>Costs Less Land, Non-Fixed Eqt., Other</b>	<b>\$2,551,449</b>	<b>\$2,551,449</b>
	<b>Cost Per Square Foot</b>		<b>\$214.05</b>

\*As previously mentioned, the applicant indicates that the fixed equipment included in the construction cost of the MOB would be the HVAC system, which costs \$196,065. Also, the site preparation cost is \$191,400 and is included in the new construction cost of the proposed MOB.

\*\*Source: Mississippi Certificate of Need Review Manual, Revised September 1, 2011.