

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
JUNE 13, 2022**

**CON REVIEW NH-CO-0422-006
BELHAVEN SENIOR CARE, LLC D/B/A THE MADISON HEALTH & REHABILITATION
CENTER
COST OVERRUN TO CON REVIEW NH-RLS-0818-009; CON NUMBER R-0949
RELOCATION OF BELHAVEN SENIOR CARE TO NEW BUILDING IN
MADISON COUNTY
ORIGINAL CAPITAL EXPENDITURE: \$12,593,624.00
ADDITIONAL CAPITAL EXPENDITURE: \$580,253.61
REVISED CAPITAL EXPENDITURE: \$13,173,877.61
LOCATION: MADISON, MADISON COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Belhaven Senior Care, LLC d/b/a The Madison Health & Rehabilitation Center (“Nursing Home” or “The Madison”) is a Mississippi Limited Liability Company, located at 111 Kelly Blvd, Madison, Madison County, Mississippi 39110. The Madison is managed and operated by Trend Consultants, LLC, a Mississippi Limited Liability Company.

Mr. Charles Bruce Kelly is the Manager and President of Belhaven Senior Care, LLC, Kelly Holdings – Madison, LLC, and Trend Consultants, LLC. Mr. Kelly holds a 99% membership interest in each entity; therefore, no resolution was necessary to engage in the relocation of the Nursing Home to Madison or the construction of the new building to house the relocated nursing home. However, the applicant affirms unanimous written consent of each of the members of Belhaven Senior Care, LLC, Trend Consultants, LLC, and Kelly Holdings – Madison authorizing the relocation, construction, and financing for the project were included in the original CON Application. Kelly Holdings – Madison, LLC, an affiliated entity of Belhaven Senior Care, LLC, constructed the new building to house the sixty (60) bed skilled nursing home.

B. Project Background

Belhaven Senior Care, LLC was granted Certificate of Need (CON) No. R-0949 on February 25, 2019 for the relocation of Belhaven Senior Care (a sixty-bed nursing home) from Hinds County to a newly constructed building in Madison County.

The original application stated the current building housing the Nursing Home, located at 1004 North Street in Jackson, was a split-level configuration that required all residents to use an elevator to access the dining room and activity and therapy areas. The application stated, upon approval, Belhaven Senior Care would relocate to a tract of land, consisting of approximately 8.2 acres located on Bozeman Road in the City of Madison, Madison County, Mississippi 39211.

The applicant affirmed the proposed project consisted of the following: a new 60-bed facility with a total of 52,350 square feet of space, including (i) 47,324 square feet of heated and cooled areas, (ii) 1,053 square feet of covered porches, (iii) 1,287 square feet for a front entry drive-through area, (iv) 800 square feet of space for two gazebos, and (v) 1,886 square feet of space for an on-site maintenance building. The original application stated the new facility would be a single-story building, which the applicant deemed safer in the event of an emergency. The applicant also noted a single-story building would allow residents greater mobility within the Nursing Home.

The Bureau of Health Facilities Licensure and Certification approved the site, located at 327 Bozeman Road, Madison, MS, on December 10, 2019. The applicant originally proposed the capital expenditure would be obligated upon CON approval and the project would be completed within eighteen (18) months of CON approval. The applicant now states the project is 100% complete, and the Nursing Home is licensed and operating in the Madison location.

C. Project Description

Belhaven Senior Care, LLC d/b/a The Madison Health & Rehabilitation Center now requests CON authority for a cost overrun amount of \$580,253.61 for CON No. R-0949. The cost overrun application filed with the Department requests authority to increase the capital expenditure from \$12,593,624.00 to \$13,173,877.61.

The applicant affirms the capital cost of this project increased to cover higher than expected construction costs resulting from pandemic related inflationary

increases for the acquisition of building supplies and fixed and non-fixed equipment and additional costs incurred due to adding computers, other office equipment, and furnishings to the list of non-fixed equipment.

1. Provide a photocopy of the original Certificate of Need.

The applicant included a copy of the original Certificate of Need.

2. Describe all proposed changes not approved in the original CON application (e.g. changes in square footage, construction, or renovation; changes in range, facilities served, or types of services, bed changes; equipment changes; etc.)

The applicant states the proposed cost overrun requests approval for a total capital expenditure of \$13,173,877.61, an increase of \$580,253.61 (a 4.6% increase over the originally authorized expenditure). The applicant further states there have not been any changes in square footage, construction, range, facilities served, types of services offered, changes in bed complement, or changes in equipment other than the provision of new non-fixed equipment.

a. Transfer of CON:

The proposed project does not involve the transfer of a CON.

b. Change of Site:

The proposed project does not entail a site change.

3. If project is related in whole or in part to compliance with requirements of the Licensure and Certification Division of the MSDH, or any other certification or licensing authority, provide documentation.

The applicant submitted two (2) letters from the Division of Health Facilities Fire Safety and Construction. The first letter,

dated December 10, 2019, approved the final architectural plans and authorized the commencement of construction. The second letter, dated January 7, 2022, stated a completion inspection had been performed at the new building and that the building is in substantial compliance with the approved plans and specifications. The applicant also included a letter from the Division of Health Facilities, Licensure and Certification, which provided The Madison Health & Rehabilitation Center with its license to operate for the remaining part of the 2021-2022 licensure year (January 7, 2022 - March 31, 2022).

4. **If the project is related to a construction/expansion project, enclose a copy of the revised cost estimate signed by a licensed architect or licensed Mississippi building contractor.**

The applicant affirms the construction of the new facility is complete; therefore, there is no cost estimate only paid costs. The applicant states all costs incurred with respect to the project have been paid in full. The applicant attached a copy of the construction contract, dated April 30, 2020, by and between Kelly Holdings and MidState Construction of Mississippi LLC, a licensed Mississippi building contractor ("MidState" or the "Contractor"), estimating a contractual construction cost of \$10,224,221.00 (the "Construction Contract"). Additionally, the applicant included a copy of the final application and Certificate of Payment, dated December 23, 2021, evidencing the final cost of construction as \$10,557,890.74, an increase in the contracted cost of \$333,669.74.

5. **If actual construction has not begun, give date it will begin and the reasons for the delay.**

The applicant affirms construction is complete and the Nursing Home is licensed and operating in the new Madison location.

6. **Provide evidence that the Division of Radiological Health has approved the plans for provision of radiation therapy services, if applicable.**

The applicant states this is not applicable to the project.

- 7. If the project involves the purchase/lease/change in vendor or manufacturer of major medical equipment, not included in the originally approved certificate of need project, provide the following:**
- a. Type of equipment, capacity, and manufacturer**
 - b. Purchase price of equipment**
 - c. Purchase and installation date(s) of equipment; and**
 - d. Explanation of cost variance from original quotes.**

The applicant states these items are not applicable to the project.

- 8. Will the amendment require any change in facility staffing? If so, identify changes in terms of personnel skills, number of personnel and indicate your recruitment plan which will obtain the services of these personnel.**

The applicant states there is no change in facility staffing.

- 9. List all transfer/referral/affiliation agreements between your facility and other providers of health care within your service area, which have changed since the original application was submitted or will change as a result of this amendment.**

The applicant states this is not applicable to the project.

- 10. Provide the estimated date this project will be implemented/completed if the amendment/cost overrun is granted.**

The applicant affirms the proposed project is complete and the Nursing Home has received and paid all final invoices for the construction of the building and for non-fixed equipment.

II. TYPE OF REVIEW REQUIRED

The Mississippi State Department of Health reviewed the original project pursuant to Sections 41-7-191(1) and 41-7-193, Mississippi Code of 1972 Annotated, as

amended, and the duly adopted rules, procedures, plans, criteria, and standards of the Mississippi State Department of Health. This project continues to be in substantial compliance.

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 ten (10) days of publication of the staff analysis. The opportunity to request a hearing expires June 23, 2022.

III. FINANCIAL ANALYSIS

1. Complete the Capital Expenditure Summary.

Capital Expenditure Summary

| | Original Approved Amount | Revised Amount | Increase or (Decrease) |
|---|---|------------------------------------|------------------------------------|
| New Construction | \$6,941,000 | \$7,494,203.74 | \$553,203.74 |
| Construction/ Renovation | 0 | 0 | 0 |
| Land | 800,000 | 800,000 | 0 |
| Site Work | 2,180,000 | 1,744,022 | (435,978) |
| Fixed Equipment | Included in New Construction | Included in New Construction | Included in New Construction |
| Non-Fixed Equipment | 705,000 | 1,308,454.00 | 603,454 |
| Contingency | 208,230 | 39,254 | (168,976) |
| Fees (Architectural, Consultant, etc.) | 896,828 | 870,779.67 | (26,048.33) |
| Other Construction Fees | 511,600 | 769,584 | 257,984 |
| Legal and Accounting | Included in Financing Fees | Included in Financing Fees | Included in Financing Fees |
| Capitalized Interest | 200,966 | 0 | (200,966) |
| Legal and Accounting Fees and Finance Fees | 25,000 125,000 | 147,580.20 | (2,419.80) |
| Capital Improvement | 0 | 0 | 0 |
| Total Capital Expenditure | \$12,593,624 | \$13,173,877.61 | \$580,253.61 |

The above capital expenditure table represents a 4.6% (i.e., \$580,253.61) increase in the original capital expenditure. The project involved 52,350 square feet of construction and is 100% complete.

2. Provide line-item justification for each increase (or decrease) in capital expenditure.

Item 1: New Construction: The applicant states the initial cost estimate for new construction was \$6,941,000.00. The applicant notes the revised construction capital expenditure is \$7,494,203.74, which represents an increase of \$553,203.74. The applicant states the increase was primarily a result of timing between the date of the estimate (July 19, 2018) and the execution of the Construction Contract (April 30, 2020), approximately a two-year period. The applicant states the increase was impacted by inflation, an increase in building supplies, the allocation of cost to construction rather than site work, and the costs of various fees. The applicant submits there were also a number of change orders (upgrades, changes, omissions, and additions) totaling \$333,588.74.

Item 2: Construction/Renovation. The applicant states this item is not applicable.

Item 3: Land. The applicant notes the cost to purchase the land remained unchanged. The applicant submits the land was purchased and paid for prior to the filing of the CON Application.

Item 4: Site Work. The applicant states the costs set forth for site work, as reported in the CON Application and on subsequent progress reports and extension requests, indicated a decrease in site work by \$435,978.00. However, the applicant states the cost of site work, as presented in the CON Application pursuant to the cost estimate provided by the Contractor, considered additional costs that are now included in the cost of construction.

Item 5: Fixed Equipment. The applicant states fixed equipment costs are included in the cost of construction.

Item 6: Non-fixed Equipment. The applicant states the cost for non-fixed equipment increased by approximately \$600,000.00 for several reasons including inflation. The applicant states non-fixed equipment is not ordered until construction is essentially complete; therefore, when the equipment was ordered, inflation was rising significantly. In addition, the applicant states, when the non-fixed equipment estimate was provided in 2018, it was

anticipated the equipment utilized in the Belhaven facility on North Street would be adequate. However, the applicant states, by the time construction was complete, the computer equipment was essentially obsolete for the needs of a skilled nursing facility. Also, in addition to the new office computers and other office equipment, the applicant determined there was a need to provide the offices with new furnishings.

Item 7: Contingency. The applicant submits the contingency amount in the original CON application was utilized and has been absorbed in the actual cost of new construction. The applicant states a number of change orders (upgrades, changes, omissions, and additions) also added to the construction cost totaling \$333,588.74. The applicant affirms the initial capital expenditure estimate for construction (\$208,203.00) was insufficient to cover the cost of such change orders and, thus, was completely absorbed in the increase in the cost of new construction (7,494,203.74).

The applicant states the actual cost of construction is now known and the Contractor has been paid in full, so there is no longer a need for a construction contingency reserve. The applicant further states the revised contingency in the amount of \$39,254.00 represents a 3% contingency fee based on the current costs paid for the non-fixed equipment associated with the project.

Item 8: Fees.

- a. Architectural/Consultant. The CON holder states the original estimate of architectural and consultant fees totaled \$896,828.00 and included the following: architect's fee of \$311,328.00, civil engineering fee of \$35,500.00, and MidState contractor's fee of \$550,000.00. The applicant states the actual amount of such fees totaled \$870,779.67 and included the following: architect's fee of \$264,428.22 (a decrease of \$46,899.78), civil engineering fee of \$5,482.50 (a decrease of \$30,071.50), MidSouth contractor's fee of \$550,000.00 (unchanged), and surveyor's fee of \$50,869.95. The applicant states professional fees decreased by \$26,048.33.
- b. Other. The applicant states the "Other Building Fees" were initially estimated at \$511,600.00 and included the following: insurance/fees/permits costs of \$86,470.00, contractor's tax of \$353,980.00, and a surety bond of \$71,150.00. The applicant states the actual individual costs of "Other Building Fees" totaled

\$769,584.00 and included the following: insurance/fees/permits costs of \$88,383.00 (an increase of \$1,913.00), contractor's tax of \$360,298.00 (an increase of \$6,318.00), a surety bond of \$0 (a decrease of \$71,150.00), superintendent fee of \$137,700.00 (not included in the original cost estimate and thus an increase of \$137,700.00), project manager fee of \$33,900.00 (not included in the original cost estimate and thus an increase of \$33,900), progress meetings costs of \$3,200.00 (not included in the original cost estimate and thus an increase of \$3,200.00), safety/first aid costs of \$3,280.00 (not included in the original cost estimate and thus an increase of \$3,200.00), a testing allowance of \$15,000.00 (not included in the original cost estimate and thus an increase of \$15,000.00), utilities of \$18,150.00 (not included in the original cost estimate and thus an increase of \$18,150.00), temporary facilities costs of \$13,130.00 (not included in the original cost estimate and thus an increase of \$13,130.00), small tools/supplies costs of \$10,400.00 (not included in the original cost estimate and thus an increase of \$10,400.00), daily clean-up costs of \$38,830.00 (not included in the original cost estimate and thus an increase of \$38,830.00), dumpster costs of \$21,125.00 (not included in the original cost estimate and thus an increase of \$21,125.00), final clean-up costs of \$19,365.00 (not included in the original cost estimate and thus an increase of \$19,365.00), printing/postage costs of \$4,100.00 (not included in the original cost estimate and thus an increase of \$4,100.00), and job signage costs of \$2,723.00 (not included in the original cost estimate and thus an increase of \$2,723.00). The applicant asserts such fees/costs represent an increase of \$257,984.00.

The CON holder states, as indicated in the Cost Estimate contained in the CON Application, the Contractor estimated a cost of \$71,150.00 for a surety bond, which Kelly Holdings did not require. Therefore, there was no surety bond expense. The applicant submits the main reason for the increase in "Other Building Fees" is that certain items on MidState's Final Invoice were not included as fees in the Cost Estimate; furthermore, the actual costs of those fees that were listed on the Cost Estimate were also greater than estimated due to inflation.

- c. Legal and Accounting. The applicant submits the Nursing Home's accounting records merged all financing fees and legal and accounting fees associated with the construction of the new building.

The applicant states these fees, which total \$147,580.20, have been capitalized, not expensed.

Item 9:

- a. Capitalized Interest. The CON holder states the Nursing Home expensed all interest on the construction loan for cost reporting purposes; therefore, there was \$0 in capitalized interest.
- b. Financing Fees. As stated above, the applicant submits the Nursing Home's accounting records merged all financing fees and legal and accounting fees associated with the construction of the new building. The applicant states these fees, which total \$147,580.20, have been capitalized, not expensed.

Item 10: Capital Improvement. The applicant states this item not applicable.

a. Document capital expenditure made to date and the percentage of completion.

The CON holder affirms, as of the date of its Cost Overrun Application, \$13,173,877.61 has been paid toward the completion of the project. The applicant states there is no expectation of any additional invoice of unpaid expenses with respect to the project; however, a contingency fee in the amount of 3% of the cost of non-fixed equipment has been included as an abundance of caution. The applicant further states the project is 100% complete and the facility is licensed and operating in the Madison location.

3. Enclose a revised projected operating statement for the first full year of operation after completion of the project (for the proposed project/service only); include increased or decreased cost per day/procedure and charges per day/procedure.

The applicant included a revised operating statement in their application. The applicant further states the additional capital expenditure with respect to this project resulted in no additional cost per patient day or charge per patient day.

4. Disclose source of all financing (if debt attach creditor's letter).

- a. Provide amount of loan/lease, interest rate, term of loan and payment/lease amount.

The CON holder states Kelly Holdings, as borrower, entered into a Construction Loan Agreement, dated June 22, 2020, with BankPlus, as lender. According to the applicant, the relevant terms are as follows:

- Principal amount - \$9,616,000
- Interest rate – 2.350%
- Maturity date – July 31, 2025
- Monthly payment - \$42,581.32 beginning August 31, 2022, until such date, interest only payments

The CON holder states any cost of the project paid in excess of the principal amount of the construction loan has been paid from the operating revenues of Belhaven Senior Care, Kelly Holdings, Trend and other Trend-related entities.

b. Enclose a loan amortization schedule for all loans.

The CON holder included a loan amortization schedule in their application.

5. Provide audited or un-audited financial statements for the past year.

The CON holder submitted a confidential balance sheet and statement of operations of Trend Consultants for 2021.

6. Enclose a revised depreciation schedule for all assets.

The applicant states the project is complete and the Nursing Home has been relocated. The applicant notes none of the existing equipment that was being depreciated was moved to the new replacement facility. Therefore, the depreciation costs indicated in the CON Application did not carry over to the costs of operating The Madison.

The applicant states Kelly Holdings constructed and owns the new replacement facility and has purchased all the non-fixed equipment. Therefore, none of the capital costs listed will result in a depreciation cost attributable to The Madison as The Madison will lease the building and the new non-fixed equipment. The applicant further states the Nursing Home will have no depreciable assets during the first year of operation in the new facility.

7. Show effect of project on Medicaid patients, Medicare patients and other payers.

The CON holder affirms there will be no effect on Medicaid patients, Medicare patients, or other payors as a result this Cost Overrun Application because there is no anticipated increase in utilization.

B. Method of Financing

The applicant states Kelly Holdings, as borrower, entered into a Construction Loan Agreement, dated June 22, 2020, with BankPlus, as lender.

C. Effect on Operating Cost

The applicant’s projections of gross revenues for the first year of operation are shown in Attachment 1.

D. Cost to Medicaid/Medicare

Based on the applicant’s projections, The Madison will have the following revenue sources for each payor category listed below.

| Payor | Utilization Percentage | First Year Revenue |
|--------------|------------------------|--------------------|
| Medicare | 64.00% | \$5,900,982 |
| Medicaid | 24.00% | 2,260,606 |
| Self-Pay | 11.00% | 1,027,548 |
| Other | 1.00% | 102,755 |
| Charity Care | 0% | 0 |
| Total | 100.00% | \$9,292,891 |

IV. COMPLIANCE WITH STATE HEALTH PLAN, POLICIES AND PROCEDURES

A. State Health Plan (SHP)

The *FY 2018 Mississippi State Health Plan* (“MSHP” or the “Plan”) was in effect at the time the original CON Application was submitted to the Department. The original application was found to be in substantial compliance with the *FY 2018 MSHP*. The cost overrun project was submitted under the *FY 2022 Mississippi State Health Plan*. The applicant’s Cost Overrun Application is also in substantial compliance with the *FY 2022*

MSHP.

B. General Review (GR) Criteria

The *Mississippi Certificate of Need Review Manual (April 9, 2017, Revision)* was in effect at the time the original CON Application was submitted to the Department. The original project was found to be in compliance with the *CON Review Manual*.

Chapter 8 of the *Mississippi Certificate of Need Review Manual (September 1, 2019, Revision)* addresses general criteria by which all CON applications are reviewed. The applicant's Cost Overrun Application is also in substantial compliance with the general review criteria contained in the *CON Review Manual*.

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 June 6, 2022, the Division of Medicaid indicated the Division had no comment on this application.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the criteria and standards for the relocation/transfer of nursing home beds as contained in the *FY 2022 Mississippi State Health 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 Cost Overrun Application submitted by Belhaven Senior Care, LLC d/b/a The Madison Health and Rehabilitation Center for a cost overrun to CON No. R-0949. The cost overrun will allow the CON holder to increase the authorized capital expenditure from \$12,593,624.00 to \$13,173,877.61 for the Relocation of Belhaven Senior Care to a New Building in Madison County.

Attachment 1
Belhaven Senior Care, LLC d/b/a The Madison Health & Rehabilitation Center
Relocation of Belhaven Senior Care to New Building in Madison County
Cost Overrun to CON No. R-0949
Three-Year Projected Operating Statement
(Project Only)

| Revenue and Expenses | Year I |
|---|---------------------|
| Patient Revenue: | |
| Inpatient | \$ 9,291,891 |
| Outpatient | 0 |
| Gross Patient Revenue | \$ 9,291,891 |
| Charity Care | 255,608 |
| Deductions from Revenue | <u>2,674,643</u> |
| Net Patient Care Revenue | \$ 6,361,640 |
| Other Operating Revenue | 9,349 |
| Total Operating Revenue | \$ 6,370,989 |
| Expenses | |
| Operating Expenses: | |
| Salaries | \$ 2,483,437 |
| Benefits | 394,183 |
| Supplies | 658,097 |
| Services | 1,330,055 |
| Lease | 696,000 |
| Depreciation | 0 |
| Interest | 0 |
| Other | <u>743,074</u> |
| Total Operating Expense | \$ 6,304,846 |
| Net Operating Income (Loss) | \$ 66,143 |
| Assumptions | |
| Inpatient days | 20,148 |
| Average net patient care revenue per inpatient day | \$315.75 |
| Cost per inpatient day | \$312.93 |
| Occupancy Rate | 92% |