

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
JUNE 2015**

**CON REVIEW NUMBER: NH-CO-0315-006
BEDFORD CARE CENTER-WARREN HALL, LLC D/B/A
BEDFORD CARE CENTER-PICAYUNE
COSTOVERRUN TO CON #R-0643 (CON REVIEW NUMBER: NH-RLS-0304-003)
REPLACEMENT/RELOCATION OF A 120-BED NURSING HOME FACILITY
CAPITAL EXPENDITURE: \$4,686,739
ADDITIONAL CAPITAL EXPENDITURE: \$1,843,761
TOTAL CAPITAL EXPENDITURE: \$6,530,500
LOCATION: PICAYUNE, PEARL RIVER COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Bedford Care Center-Warren Hall, LLC d/b/a Bedford Care Center-Picayune (Bedford) is a Mississippi limited liability company formed October 28, 2001. Hattiesburg Medical Park Management Corporation presently manages the Bedford facility and is governed by a four-member Board of Managers. Bedford Care Center-Warren Hall, LLC is presently licensed by the Mississippi State Department of Health and operates seven (7) Medicare and Medicaid certified long-term care nursing facility in Mississippi. Conva-Rest Warren Hall, Inc. (Conva-Rest) is an affiliate of Bedford Care Center-Warren Hall, LLC.

B. Project Background

Bedford Care Center-Warren Hall, LLC d/b/a Bedford Care Center-Picayune was granted Certificate of Need (CON) Number R-0643 for the replacement/relocation of a 120-bed nursing home facility. The effective date of the CON was June 24, 2004, with an expiration date of June 24, 2005.

The applicant asserts that the scope of the original proposed project involves the replacement and relocation of its existing 120-bed nursing home facility from Forrest County to Pearl River County. Both Forrest and Pearl River counties are located within Long-Term Care Planning District (LTCPD) IV. The nursing home facility will be a single-story structure with 37,500 square feet of new construction. According to the applicant, the skilled nursing facility would be constructed by Conva-Rest Warren Hall, Inc. The proposed nursing facility will be located on Highway 43 near the I-59 intersection in Picayune, Mississippi.

Bedford asserts that it will assess and determine the most effective use of space in the existing nursing home facility following the bed relocation to Pearl River County, Mississippi.

The applicant asserts that Bedford Care Center-Warren Hall will provide a comprehensive array of services to meet the needs of its patients. The services include the following:

Physical Therapy	24-Hour Nursing Care and Supervision
Occupational Therapy	Rehabilitative Treatment
Speech and Audiology	Restorative Care
Complex Medical Equipment	Recreational Activities
Individual Activities	

The applicant projects 118.8 new full-time equivalent personnel at an estimated cost of \$2,659,445 the first year for the proposed nursing facility.

Bedford Care Center-Warren Hall, LLC d/b/a Bedford Care Center-Picayune submitted a Six Month Extension/Progress Report (SME/PR) on November 24, 2014 regarding CON No.R-0643. Bedford's SME was approved on January 28, 2015 for CON No.R-0643. The SME period will terminate on June 24, 2015.

The applicant filed the proposed Cost Overrun application with the Department on March 27, 2015 to request approval of the additional expenditure as it relates to CON No.R-0643. The proposed application was reviewed by staff and entered into the May 2015 Review Period.

Since Bedford was granted Certificate of Need (CON) No.R-0643 for the replacement/relocation of a 120-bed nursing home facility. The applicant has complied with the Department's guidelines for six-month extensions and progress reports for a granted Certificate of Need.

C. Project Description

Bedford Care Center-Warren Hall, LLC d/b/a Bedford Care Center-Picayune now requests Certificate of Need authority for a cost overrun to its CON No.R-0643. According to the applicant, the capital expenditure approved in the original CON is \$4,686,739, and the additional costs for this cost overrun proposal are \$1,843,761, resulting in a revised total capital expenditure of \$6,530,500 for the project.

Based on the applicant's progress reports and six month extension reports, commencement of construction for the replacement/relocation of a 120-bed nursing home facility project was delayed for a number of years because the market to finance this type of project became extremely difficulty due the financial crisis that started in 2007-2008. Bedford asserts that banks tightened their lending terms and standards to unprecedented levels in many cases, denied loans for new construction projects.

According to the applicant, in May of 2012, Bedford and its affiliate, Conva-Rest Warren Hall, Inc. succeeded in obtaining a loan for the project through the United States Department of Agriculture Business and Income Program with an approved USDA lender. The applicant states that under that program funds for the project was allocated and financing was completed on June 20, 2012.

Bedford asserts that after the project's loan closed, Conva-Rest proceeded with contract bidding and negotiated with the lowest bidder, HANCO Corporation. The applicant states that the permit for the project was completed in December 2013, insurance and bonding were completed in January 2014 and the actual construction commenced in March 2014 for the project.

The applicant indicates that Bedford filed a CON application with the Department on September 2, 2014 requesting CON approval to relocate 40 of the nursing facility beds back to its original home site in Hattiesburg. However, the Department disapproved Bedford's CON application to relocate the referenced 40-beds back to its original site in Hattiesburg. As a result of that disapproval, the applicant decided to move forward with the proposed cost overrun application, in order to complete Phase I of the project.

Bedford asserts that during the planning and development of the project, the applicant determined that the facility should be constructed in phases (Phase I 60-beds and Phase II 60-beds), with Phase I consisting of constructing 60 of the 120-bed nursing facility beds. The applicant believes that the proposed cost overrun is necessary to complete Phase I of this project and that Phase I will more effectively manage the cost of the project and will allow Bedford to evaluate whether to construct the remaining 60 nursing facility beds at the Picayune location over a period of time or select the alternative to request CON approval to relocate some or all of the remaining 60-beds to another facility.

According to the applicant, Phase I of the project includes a number of areas and costs that will support the entire campus of the 120-bed nursing facility, including a large commercial kitchen, a large therapy room, and entry drives, walks and parking.

Bedford affirms that the additional capital expenditure of \$1,843,761 in the proposed cost overrun project will be financed from a commercial loan from Magnolia State Bank. The proposed cost overrun application contained a copy of a letter from Magnolia State Bank attesting to funding the proposed cost overrun project.

Bedford asserts that after it completes Phase I of the project, it will obtain license and certification from the Department for the initial 60 beds, and Bedford will not commence construction of Phase II of this project (the remaining 60 beds) until it has applied and received CON approval from the Department for an additional CON amendment/cost overrun to complete Phase II, which will complete the full project (120 nursing facility beds). The applicant states that the capital expenditure made to date is approximately \$4,208,199 and Phase I of the project is approximately 80% complete, and the entire project is approximately 40% complete.

According to the applicant, there will be no change in staffing as a result of the proposed cost overrun project.

Staff contends that this cost overrun does not change the scope of the original project.

The Mississippi State Department of Health, Division of Health Facilities Licensure and Certification approved the original site for the proposed project.

II. TYPE OF REVIEW REQUIRED

The original project was reviewed in accordance with Section 41-7-191, (1)(b), and (e) of the Mississippi Code of 1972 Annotated, as amended, and duly adopted rules, procedures, plans, criteria, and standards of the Mississippi State Department of Health.

The State Health Officer reviews all projects for amendments and cost overrun in accordance with duly adopted procedures 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 on July 13, 2015.

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

A. State Health Plan (SHP)

The original application was in substantial compliance with the *FY 2004 Mississippi State Health Plan*, in effect at the time the original application was submitted. The cost overrun project continues to be in compliance with the *FY 2015 Mississippi State Health Plan*.

B. General Review (GR) Criteria

The original project was in substantial compliance with the *Certificate of Need Review Manual, FY 2000 Revision*, in effect at the time of submission. This application continues to be in compliance with applicable General Review Criteria and Standards contained in the *Certificate of Need Review Manual, 2011 Revision*.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

	Original Approved Amount	Revised Amount	Increase/ (Decrease)
1. New Construction Cost	\$3,375,000	\$4,800,000	\$1,425,000
2. Construction/Renovation	0	0	0
3. Land	\$325,000	\$370,500	\$45,500
4. Site Work	\$187,500	\$85,000	\$(102,500)
5. Fixed Equipment	\$187,500	\$220,000	\$32,500
6. Non-Fixed Equipment	\$199,547	\$400,000	\$200,453
7. Contingency	\$117,000	\$100,000	\$(17,000)
8. Fees (Architectural, Consultant, etc)	\$234,000	\$350,000	\$116,000
9. Capitalized Interest	\$61,192	\$125,000	\$63,808
10. Other Costs: Parking	0	\$80,000	\$80,000
Total Capital Expenditure	\$4,686,739	\$6,530,500	\$1,843,761

As previously mentioned, the capital expenditure approved in the original CON is \$4,686,739. The applicant asserts that the additional cost for the cost overrun proposal is \$1,843,761, resulting in a revised capital expenditure of \$6,530,500 for the project.

The proposed cost overrun is discussed under *C. Project Description*. The applicant states that the capital expenditure made to date is approximately \$4,208,199 and phase I of the project is approximately 80% complete, and the entire project is approximately 40% complete. The proposed cost overrun does not change the scope of the original project.

B. Method of Financing

The applicant proposes to finance the additional capital expenditure, \$1,843,761, through a commercial loan with Magnolia State Bank. The application included a letter from the bank indicating its willingness to finance the project.

C. Effect on Operating Cost

Bedford Care Center-Picayune provided a revised projected operating statement for the first three years of operation after completion of the project. See Attachment 1. Attachment 2 shows the original three-year projected operating statement of CON No.R-0643 (replacement/relocation of a 120-bed nursing facility).

D. Cost to Medicaid/Medicare

The applicant states that the additional capital expenditure associated with the proposed cost overrun will not impact Medicare and Medicaid or other payors, because those programs do not reimburse nursing facilities based on direct capital cost.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for comment.

VI. CONCLUSION AND RECOMMENDATION

The original application was in substantial compliance with the *FY 2004 Mississippi State Health Plan*, in effect at the time the original application was submitted; the *Mississippi Certificate of Need Review Manual, revised 2000*, and all adopted rules, procedures and plans of the Mississippi State Department of Health. The proposed cost overrun project continues to be in compliance with all applicable rules, procedures and plans in the *FY 2015 Mississippi State Health Plan* and the *Certificate of Need Review Manual, 2011 Revision*.

The Division of Health Planning and Resource Development recommends approval of this application submitted by Bedford Care Center-Warren Hall, LLC d/b/a Bedford Care Center-Picayune for the cost overrun to its CON Number R-0643 for the replacement/relocation of a 120-bed nursing facility.

Attachment 1

Bedford Care Center-Warren Hall, LLC d/b/a Bedford Care Center-Picayune Three-Year Operating Statement (Revised)			
	Year 1	Year 2	Year 3
Revenue			
Gross Patient Revenue	\$3,650,828	\$5,452,423	\$ 5,557,857
Deductions from Revenue	(306,025)	(223,328)	(391,140)
Net Patient Revenue	\$3,344,803	\$ 5,229,095	\$ 5,166,717
Expenses			
Operating Expenses:			
Salaries and Benefits	\$ 1,773,256	\$ 2,370,033	\$ 2,417,434
Supplies and Expenses	1,848,849	2,238,420	2,283,188
Interest	0	0	0
Total Expenses	\$ 3,622,105	\$ 4,608,453	\$ 4,700,622
Net Income (Loss)	\$ (277,302)	\$ 620,642	\$ 466,095
Assumptions			
Occupancy Rate%	56.8%	97.7%	98.7%
Patient days	12,429	21,393	21,612
Cost per patient day	\$ 291.42	\$ 215.42	\$ 217.50
Charge per patient day	\$ 269.11	\$ 244.43	\$ 239.07

Attachment 2

Bedford Care Center-Warren Hall, LLC d/b/a Bedford Care Center-Picayune Three-Year Operating Statement (Original)			
	Year 1	Year 2	Year 3
Revenue			
Gross Patient Revenue	\$4,947,066	\$6,116,699	\$ 6,239,226
Deductions from Revenue	(49,009)	(54,665)	(60,874)
Net Patient Revenue	\$4,898,057	\$ 6,062,034	\$ 6,178,352
Expenses			
Operating Expenses:			
Salaries and Benefits	\$ 2,659,445	\$ 3,318,190	\$ 3,417,736
Supplies and Expenses	2,178,198	2,586,890	2,664,496
Interest	10,573	0	0
Total Expenses	\$ 4,848,216	\$ 5,905,080	\$ 6,082,232
Net Income (Loss)	\$ 49,841	\$ 156,954	\$ 96,120
Assumptions			
Occupancy Rate%	77.70%	95%	95%
Patient days	34,031	41,610	41,610
Cost per patient day	\$ 142.46	\$ 141.91	\$ 146.17
Charge per patient day	\$ 145.36	\$ 147.00	\$ 149.95