

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
October 21, 2024**

**CON REVIEW: HR-A-CO-0924-011
AMENDMENT/COST OVERRUN TO CON # R – 0990 (HR-FSF-0222-004)
BAPTIST MEMORIAL REHABILITATION HOSPITAL – MADISON, LLC D/B/A
BAPTIST MEMORIAL REHABILITATION HOSPITAL - MADISON
ESTABLISHMENT OF COMPREHENSIVE MEDICAL REHABILITATION INPATIENT
CARE BEDS AND SERVICES IN A FREESTANDING COMPREHENSIVE
MEDICAL REHABILITATION (CMR) HOSPITAL
ORIGINAL CAPITAL EXPENDITURE: \$41,613,278.00
ADDITIONAL CAPITAL EXPENDITURE: \$11,833,736.00
REVISED CAPITAL EXPENDITURE: \$53,447,014.00
LOCATION: MADISON, MADISON COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Baptist Memorial Rehabilitation Hospital - Madison, LLC d/b/a Baptist Memorial Rehabilitation Hospital - Madison (“BMRH-Madison” or the “Applicant”) is a Mississippi limited liability company formed on February 2, 2022. The Members of BMRH-Madison are Baptist Memorial Health Services, Inc., a Tennessee nonprofit corporation and fifty-five percent (55%) owner, and LP IRF Development 65, LLC, a Delaware limited liability company doing business in Mississippi as LifePoint IRF Development 65, a forty-five percent (45%) owner. The Rehabilitation Hospital will be managed by CHC Management Services, LLC (“CHC”), an affiliate of Kindred Health Services, which is a business unit of LifePoint Health. The Board of Directors of BMRH-Madison includes six (6) members.

The application contains a Certificate of Good Standing from the Office of the Secretary of State, Jackson, Mississippi, indicating as of October 14, 2024, Baptist Memorial Rehabilitation Hospital - Madison, LLC is in good standing with the State of Mississippi.

B. Project Background

Baptist Memorial Rehabilitation Hospital – Madison, LLC was granted a Certificate of Need (“CON”) No. R-0990 for the Establishment of Comprehensive Medical Rehabilitation (“CMR”) Inpatient Care Beds and Services in a Freestanding CMR Hospital, pursuant to its original CON application and in accordance with the CON policies, criteria, and standards set forth in the FY 2022 Mississippi State Health Plan (2nd Edition). In its original application, the Applicant proposed to Establish a

Joint Venture Freestanding Forty (40) Bed Comprehensive Medical Rehabilitation (CMR) Hospital, Baptist Memorial Rehabilitation Hospital – Madison, LLC d/b/a Baptist Memorial Rehabilitation Hospital - Madison (the “Rehabilitation Hospital”). The Rehabilitation Hospital is proposed to be comprised of thirty-five (35) Level II CMR beds and five (5) Level I CMR beds, for a total of forty (40) CMR beds.

The Applicant’s state in their original application the Rehabilitation Hospital will be a Medicare-certified Inpatient Rehabilitation Facility (“IRF”) Hospital, accredited by The Joint Commission, and will seek Commission on Accreditation of Rehabilitation Facilities (“CARF”) accreditation. BMRH-Madison states the Rehabilitation Hospital will also be certified for participation in the Mississippi Medicaid program.

The Applicant’s original application states the Rehabilitation Hospital will be constructed in southern Madison, Madison County, Mississippi on a four (4) acre parcel on the west side of Highland Way, just south of Highland Colony Parkway. Mississippi Boldt Capital, LLC (“Boldt”) will serve as the developer for the construction of the building on land owned by Baptist and in close proximity to the Baptist Madison Campus. BMRH-Madison proposes leasing the 55,079 square foot building from Boldt for the operation of the Rehabilitation Hospital.

The original application states the Rehabilitation Hospital will be constructed as a two (2) story structure that will house all hospital departments. The Applicant state the first floor will include twenty (20) private patient rooms, a physical therapy gym, an Activities of Daily Living (“ADL”) Suite, kitchen and dining, support services, and an entry lobby. The Applicant further states the second floor will include twenty (20) private patient rooms, Pharmacy, and Administration. The Applicant’s application includes schematic drawings for the proposed project.

In addition, the Applicant states BMRH-Madison proposes the Rehabilitation Hospital will offer intensive, comprehensive care, treatment, and services, including, but not limited to, physical medicine and rehabilitation, rehabilitation nursing, physical therapy, occupational therapy, speech language and pathology, social services/case management, and nutritional services, through a multidisciplinary approach. The Applicant states all inpatient rooms will be private.

The application included the original site approval letter from the Mississippi Department of Health Division of Health Facilities and Licensure, dated March 8, 2022.

The Applicant states BMRH-Madison will be designed to comply with relevant state and local building codes, zoning ordinances, and/or appropriate regulatory authority. In addition, BMRH-Madison affirms it will comply with all applicable State statutes and regulations for the protection of the environment, including: 1)

approved water supplies; 2) sewage and water disposal; 3) hazardous waste disposal; 4) water pollution control; 5) air pollution control; and 6) radiation control.

C. Project Description

Baptist Memorial Rehabilitation Hospital – Madison, LLC now requests CON authority for an amendment/cost overrun amount of \$11,833,736.00 for CON No. R-0990. The cost overrun application filed with the Department requests authority to increase the capital expenditure from \$41,613,278.00 to \$53,447,014.00.

According to the Applicant, there have been no changes in square footage, construction, beds or services to be offered, since the last CON Progress Report. The Applicant states the cost overrun and additional capital expenditure is due to cost escalation and other developments that have occurred since the submission of the original CON application. The Applicant submits the increase in new construction cost from the original approval is attributable to material, labor and supply chain escalations over the originally approved amount.

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

The Applicant's application 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 affirms there have been no changes in square footage, construction, beds or services to be offered, since the last CON Progress Report. The Applicant further states the proposed changes are due to cost escalations and other developments that have occurred since the submission of the original CON application.

The Applicant states the increase in new construction cost from the original approval is attributable to material, labor and supply chain escalation over the originally approved amount and changes in the final design. The Applicant further states that in addition to the construction costs, there was an increase in land cost due to an update appraisal.

a. Transfer of CON:

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

b. Change of Site:

The Applicant affirms the proposed project does not involve 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 states this item is not applicable to their proposed cost overrun application request.

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 application included a copy of the revised cost estimate for the proposed cost/overrun project. The Applicant states Brasfield & Gorrie as the general contractor for the project, through a no-bid process.

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

The Applicant states the implementation of the project was delayed due to several factors that include a third party requesting a public hearing on the original CON application; the hearing ultimately being withdrawn; and the request delaying the CON schedule for a number of months. In addition, the Applicant states inflation and significant cost increases impacted the original estimate of the capital expenditure for the project. Therefore, the Applicant submits as a result, BMRH-Madison conducted a reassessment of the cost structure for the proposed project. The Applicant's application includes the results of the assessment.

- 6. Provide evidence at 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 proposed 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 the proposed amendment and cost overrun project does not involve any change in equipment, with the minor exception of the allocation of the cost of Electronic Medical Records and associated Information Technology.

- 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 the amendment/ cost overrun will not require change in 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 there have been no changes in agreements with other providers since the submission of the original application.

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

The Applicant estimates the proposed project will be completed in September of 2025.

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 of the 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. The State Health Officer reviews any proposal in which the estimated or actual cost exceeds the amount originally approved.

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 October 31, 2024.

III. FINANCIAL ANALYSIS

A. Capital Expenditure Summary

1. Complete the Capital Expenditure Summary.

Capital Expenditure Summary

	Original Approved Amount	Revised Amount	Increase or (Decrease)
New Construction	\$26,861,527.00	\$35,525,855.00	\$8,664,328.00
Construction/ Renovation	\$0.00	\$0.00	\$0.00
Land	\$3,000,000.00	\$3,180,425.00	\$180,425.00
Site Work	\$2,795,569.00	\$613,614.00	(\$2,181,955.00)
Fixed Equipment	\$40,000	\$40,000.00	\$0.00
Non-Fixed Equipment	\$3,160,000	\$5,746,490.00	\$2,586,490.00
Contingency	\$1,594,555.00	\$2,666,832.00	\$1,072,277.00
Fees (Architectural, Consultant, etc.)	\$2,846,309.00	\$2,939,075.00	\$92,766.00
Capitalized Interest	\$1,315,318.00	\$2,734,724.00	\$1,419,406.00
Capital Improvement	\$0.00	\$0.00	\$0.00
Total Capital Expenditure	\$41,613,278.00	\$53,447,014.00	\$11,833,736.00

The above capital expenditure table represents approximately a 28.4% increase in the original capital expenditure by Baptist Memorial Rehabilitation Hospital-Madison, LLC.

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

The Applicant justified the increase/decrease in cost is due to New Construction, Land, Site Work, Fixed Equipment, Non-Fixed Equipment, Contingency, Fees (Architectural, Consultants, etc.), and Capitalized Interest for the cost since the original CON application.

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

The CON holder affirms, as of the date of its Amendment/Cost Overrun Application, the capital expenditure made to date is \$370,766.00 and the project is below 1% complete.

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's application included a revised operating statement for the first full year of operation, following project completion.

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 Applicant asserts the project will be funded through a combination of equity contributions by the members of BMRH-Madison and a long-term lease between BMRH-Madison and Baptist Memorial Health Systems, Inc., the owner of the property and building.

In addition to the proposed application, MSDH reviewed a confidential lease agreement between Mississippi Baptist Health Systems, Inc. and Baptist Memorial Rehabilitation Hospital-Madison, LLC.

b. Enclose a loan amortization schedule for all loans.

The Applicant states this item is not applicable to the proposed project.

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

The Applicant states BMRH-Madison is a new company that has not yet commenced operations nor generated financial statements.

6. Enclose a revised depreciation schedule for all assets.

The Applicant's application included their revised depreciation schedule.

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

The Applicant states the proposed amendment/cost overrun application will not affect Medicaid patients, Medicare patients, or other payors.

B. Method of Financing

The Applicant stated the project will be funded through a combination of equity contributions by the members of BMRH-Madison and a long-term lease between BMRH-Madison and Baptist Memorial Health Systems, Inc., the owner of the property and building.

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

The proposed amendment/cost overrun will not affect Medicaid patients, Medicare patients and other payers.

Payor Mix	Utilization Percentage (%)	First Year Revenue (\$)
Medicare	72.00%	\$ 27,775,131.00
Medicaid	6.00%	2,282,888.00
Commercial	10.00%	3,804,813.00
Self-Pay	1.00%	354,928.00
Charity Care	1.00%	354,928.00
Other	10.00%	3,804,813.00
Total	100.00%	*\$ 38,377,500.00

*Calculations may differ due to rounding.

IV. COMPLIANCE WITH STATE HEALTH PLAN, POLICIES AND PROCEDURES

A. State Health Plan (SHP)

The FY 2022 Mississippi State Health Plan, second edition was in effect at the time the original CON application was submitted. The original application was found to be in substantial compliance with the *FY 2022 MSHP, second edition*, and the cost overrun project continues to be in substantial compliance with the *FY 2022 (3rd Edition) MSHP*.

B. General Review (GR) Criteria

The *Mississippi Certificate of Need Review Manual, September 1, 2019, Revision* (the “*CON Review Manual*”) was in effect at the time the original CON application was submitted to the Department, and the original proposed project was found to be in compliance with the *CON Review Manual*. In addition, the cost overrun proposed project is also in substantial compliance with the *Certificate of Need Review Manual, November 11, 2023, Revision*.

Chapter 6, Section 6.6, of the *CON Review Manual* contains guidelines by which cost overrun projects are reviewed. The Applicant’s Cost Overrun Application is in substantial compliance with Chapter 6, Section 6.6, of 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 and has not responded on this application as of October 21, 2024.

VI. CONCLUSION AND RECOMMENDATION

The original project was found to be in substantial compliance with the criteria and standards for the establishment of comprehensive medical rehabilitation inpatient care beds and services in a freestanding CMR hospital contained in the *FY 2022 (2nd Edition) Mississippi State Health Plan, Mississippi Certificate of Need Review Manual, Revised September 1, 2019*; and all adopted rules, procedures, and plans of the Mississippi State Department of Health. The Cost Overrun Application continues to be in compliance with 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 Amendment/Cost Overrun Application submitted by Baptist Memorial Rehabilitation Hospital – Madison for CON No. R-0990. The amendment/cost overrun will allow the CON holder to increase the authorized capital expenditure from \$41,613,278.00 to \$53,447,014.00 for the Establishment of Comprehensive Medical Rehabilitation Care

Beds and Services in a Freestanding CMR Hospital.

Attachment 1

**Baptist Memorial Rehabilitation Hospital – Madison, LLC d/b/a
 Baptist Memorial Rehabilitation Hospital - Madison
 Establishment of Comprehensive Medical Rehabilitation Care Beds and
 Services in a Freestanding CMR Hospital
 Amendment/Cost Overrun to CON No. R-0990
 One-Year Projected Operating Statement**

Revenue and Expenses	Year I
Patient Revenue:	
Inpatient	\$ 39,145,050.00
Outpatient	-
Gross Patient Care Revenue	39,145,050.00
Charity Care	362,027.00
Deductions from Revenue	24,457,547.00
Net Patient Care Revenue	14,325,477.00
Other Operating Revenue	71,627.00
Total Operating Revenue	14,397,104.00
Expenses	
Operating Expenses:	
Salaries	\$ 6,058,313.00
Benefits	1,469,428.00
Supplies	981,765.00
Services	1,629,045.00
Lease	3,288,576.00
Depreciation	826,641.00
Interest	0
Other	1,923,649.00
Total Expense	\$ 16,177,418.00
Net Operating Income (Loss)	\$ (1,780,314.00)
Assumptions	
Inpatient days	9,030
Outpatient days	0
Procedures	0
Charge/inpatient day	4,335.00
Charge per outpatient day	0
Charge per procedure	0
Cost per inpatient day	1,792.00
Cost per outpatient day	0
Cost per procedure	0

HP&RD (09/24) HR-A-CO-0924-011
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