



Project # 211085-B
KD Hudson Ventures, LLC d/b/a Avalon Medical Group

Program: Diagnostic and Treatment Center County: Orange
Purpose: Establishment and Construction Acknowledged: April 14, 2021

Executive Summary

Description

KD Hudson Ventures, LLC d/b/a Avalon Medical Group, an existing New York State limited liability company, requests approval to establish and construct a diagnostic and treatment center at 121 Executive Drive, New Windsor, New York.

The Center will operate in leased space providing primary medical care, specialty medical services, physical therapy, and occupational therapy services. The specialty medical services will include cardiology, dermatology, orthopedic, pain management, neurology, neurosurgery, physical medicine and rehabilitation, and allergy testing. Yelena Shubina, MD. will be Medical Director of the Center.

Through this project, several private practices currently located at 244 Broadway, Newburgh, New York will be relocated and consolidated into the proposed Article 28 D&TC. The applicant indicates operations will expand beyond that of the private practices to accommodate additional visits through an increase in staff and a broader range of services to include orthopedic, physical medicine and rehabilitation, therapy services.

The members of KD Hudson Ventures, LLC are:

Table with 2 columns: Member, Interest. Rows: Arthur Kostanian (50%), Sergey Denevich (50%)

OPCHSM Recommendation

Contingent Approval

Need Summary

The center will offer primary care and other medical specialty services in a Health Professional Shortage Area for Primary Care Services. The applicant projects 34,335 visits in Year One and 37,771 in Year Three with Medicaid utilization of 35% and Charity Care of 2%.

Program Summary

The individual background review indicates the proposed members have met the standard for approval as set forth in Public Health Law §2801-a(3).

Financial Summary

Project costs of \$2,361,979 will be met as follows: Equity of \$236,198 via the proposed members and a bank loan of \$2,185,781 at an interest rate of 5.25% for a five-year term. The projected budget is:

Table with 3 columns: Category, Year One, Year Three. Rows: Revenues, Expenses, Net Income

Recommendations

Health Systems Agency

There will be no HSA recommendation for this project.

Office of Primary Care and Health Systems Management

Approval contingent upon:

1. Submission of a check for the amount enumerated in the approval letter, payable to the New York State Department of Health. Public Health Law Section 2802.7 states that all construction applications requiring review by the Public Health and Health Planning Council shall pay an additional fee of fifty-five hundredths of one percent of the total capital value of the project, exclusive of CON fees. [PMU]
2. Submission of a working capital loan that is acceptable to the Department of Health. (BFA)
3. Submission of a bank loan that is acceptable to the Department of Health. (BFA)
4. Submission of a photocopy of an amended and executed Operating Agreement, acceptable to the Department. (CSL)
5. Submission of State Hospital Code (SHC) Drawings, acceptable to the Department, as described in BAEFP Drawing Submission Guidelines DSG-1.0. (AER)
6. Submission of Engineering (MEP) Drawings, acceptable to the Department, as described in BAEFP Drawing Submission Guidelines DSG-1.0. (AER)

Approval conditional upon:

1. This project must be completed by **May 1, 2023**, including all pre-opening processes, if applicable. Failure to complete the project by this date may constitute an abandonment of the project by the applicant and the expiration of the approval. It is the responsibility of the applicant to request prior approval for any extensions to the project approval expiration date. [PMU]
2. Construction must start on or before **August 1, 2022**, and construction must be completed by **February 1, 2023**, presuming the Department has issued a letter deeming all contingencies have been satisfied prior to commencement. It is the responsibility of the applicant to request prior approval for any changes to the start and completion dates. In accordance with 10 NYCRR Section 710.10(a), if construction is not started on or before the approved start date this shall constitute abandonment of the approval. [PMU]
3. The submission of Final Construction Documents, as described in BAER Drawing Submission Guidelines DSG-05, is required prior to the applicant's start of construction. [AER]
4. The staff of the facility must be separate and distinct from the staff of other entities; the signage must clearly denote the facility is separate and distinct from other entities; the clinical space must be used exclusively for the approved purpose; and the entrance must not disrupt any other entity's clinical program space. [HSP]
5. The applicant must ensure registration for and training of facility staff on the Department's Health Commerce System (HCS). The HCS is the secure web-based means by which facilities must communicate with the Department and receive vital information. Upon receipt of the Operating Certificate, the Administrator/director that has day-to-day oversight of the facility's operations shall submit the HCS Access Form at the following link to begin the process to enroll for HCS access for the first time or update enrollment information as necessary:
https://www.health.ny.gov/facilities/hospital/docs/hcs_access_form_new_clinics.pdf. Questions may be directed to the Division of Hospitals and Diagnostic & Treatment Centers at 518-402-1004 or email: hospinfo@health.ny.gov [HSP]

Council Action Date

February 10, 2022

Need and Program Analysis

Description

Proposed Operator	KD Hudson Ventures, LLC
To Be Known As	Avalon Medical Group
Site Address	121 Executive Drive New Windsor, New York 12553 (Orange County)
Specialties	Medical Services – Primary Care Medical Services-Other Medical Specialties Radiology Services (x-ray) Cardiology Dermatology Orthopedics Pain Management Neurology Neurosurgery (medical visits only) Allergy/Allergy Testing Physiatry Physical Therapy Occupational Therapy
Hours of Operation	Sunday through Thursday 9:00 am to 6:00 pm Friday 9:00 am to 1:00 pm
Staffing (1st Year / 3rd Year)	20.4 FTEs / 21.8 FTEs
Medical Director(s)	Yelena Shubina, M.D.
Emergency, In-Patient and Backup Support Services Agreement and Distance	Expected to be provided by Garnet Health Medical Center 22.6 miles / 29 minutes away

Background and Analysis

The primary service area is Orange County. The population of Orange County in 2010 was 378,813 and is estimated to grow to 391,144 by 2025, an increase of 3.3%. Orange County is designated as a Health Professional Shortage Area for Primary Care services for Medicaid eligible. According to Data USA, in 2019, 92.3% of the population of Orange County has health coverage as follows:

Employer Plans	50.7%
Medicaid	17.3%
Medicare	11.0%
Non-Group Plans	12.9%
Military or VA	0.5%

The applicant projects 34,335 visits in Year One and 37,771 in Year Three with Medicaid utilization of 35% and Charity Care of 2%. The applicant is committed to serving all persons in need without regard to ability to pay or source of payment.

Character and Competence

The members of KD Hudson Ventures LLC are:

Name	Interest
Arthur Kostonian	50.00%
Sergey Denevich	50.00%
Total	100.00%

Arthur Kostanian is the Chief Executive Officer of Kostanian Consulting and Associates. He provides general administrative, marketing, and consulting services to health care providers. He was an owner of Montvale Surgical Center for over three years and was responsible for developing, monitoring, and controlling the staffing needs, operations, budget, and purchasing plan as well as continuous monitoring of operations to ensure compliance with goals and budgets. He also reviewed and approved the hiring and disciplinary actions and/or discharge of employees. He was previously a Paralegal.

Sergey Denevich has been the President of Skazka LLC for over 11 years. He provides administrative assistance and services to health care practices; consulting; marketing; bookkeeping, payroll submission; staffing; and agreements review and evaluation. He was the Administrator of City Medical Diagnostics for over one year. He reviewed and approved the hiring and disciplinary action and/or discharge of employees and supervised. He was previously a Paralegal.

Dr. Yelena Shubina, the proposed Medical Director, is a Hospitalist at Staten Island University Hospital. She was previously a Hospitalist at Nazareth Hospital in Pennsylvania. She received her medical degree from Ross University School of Medicine in the West Indies. She is board certified in Internal Medicine.

Staff from the Division of Certification & Surveillance reviewed the disclosure information submitted regarding licenses held, formal education, training in pertinent health and/or related areas, employment history, a record of legal actions, and a disclosure of the applicant's ownership interest in other health care facilities. Licensed individuals were checked against the Office of Medicaid Management, the Office of Professional Medical Conduct, and the Education Department databases as well as the US Department of Health and Human Services Office of the Inspector General Medicare exclusion database.

Sergey Denevich was arrested for Assault in the 2nd Degree and Operating a Motor Vehicle under the Influence of Drugs or Alcohol on October 11, 2004. The charges were filed on March 31, 2006 and Sergey Denevich pled guilty on June 27, 2006. He was sentenced to 364 days imprisonment for each charge, the sentences ran concurrently.

Sergey Denevich was named in a civil suit by GEICO under the federal RICO act for Racketeering and Corrupt Organization on November 22, 2010. Sergey Denevich was employed as an Administrator at City Medical Diagnostics, an imaging facility, and was individually named, along with his employer in a suit alleging non-physician operation and control over physician professional practices. The charges were dismissed, without prejudice, against Sergey Denevich on August 15, 2011.

Additionally, the staff from the Division of Certification & Surveillance reviewed the ten-year surveillance history of all associated facilities. Sources of information included the files, records, and reports found in the Department of Health. Included in the review were the results of any incident and/or complaint investigations, independent professional reviews, and/or comprehensive/focused inspections. The review found that any citations were properly corrected with appropriate remedial action.

Conclusion

The individual background review indicates the proposed members have met the standard for approval as set forth in Public Health Law §2801-a(3).

Financial Analysis

Total Project Cost and Financing

Total project cost, which is for renovation and the acquisition of moveable equipment, is estimated at \$2,361,979, further broken down as follows:

Renovation and Demolition	\$1,485,247
Site Development	5,146
Design Contingency	148,525
Construction Contingency	148,525
Planning Consultant Fees	15,439
Architect Engineering Fees	119,396
Other Fees (Consultant)	61,757
Moveable Equipment	246,117
Financing Costs	42,516
Interim interest Expense	74,402
CON Fee	2,000
Additional Processing Fee	<u>12,909</u>
Total Project Cost	\$2,361,979

The applicant's financing plan appears as follows:

Equity	\$236,198
Bank Loan (5.25% interest rate for a five-year term)	<u>\$2,125,781</u>
Total	\$2,361,979

Operating Budget

The applicant has submitted an operating budget, in 2022 dollars, for the first and third years, summarized below:

	<u>Year One</u>		<u>Year Three</u>	
	<u>Per Visit</u>	<u>Total</u>	<u>Per Visit</u>	<u>Total</u>
<u>Revenues</u>				
Commercial FFS	\$100.12	\$378,168	\$98.33	\$408,552
Commercial MC	\$85.10	\$905,806	\$83.56	\$978,451
Medicare FFS	\$83.45	\$458,480	\$81.92	\$495,020
Medicare MC	\$70.92	\$73,050	\$69.64	\$78,898
Medicaid MC	\$121.81	\$1,463,715	\$128.54	\$1,699,407
Private Pay	\$16.67	<u>\$11,450</u>	\$16.38	<u>\$12,369</u>
Total Revenues		\$3,290,669		\$3,672,697
<u>Expenses</u>				
Operating	\$84.27	\$2,893,264	\$82.77	\$3,126,388
Capital	<u>\$10.41</u>	<u>\$357,619</u>	<u>\$8.37</u>	<u>\$316,284</u>
Total Expenses	\$94.67	\$3,250,883	\$91.15	\$3,442,672
Net Income		<u>\$39,786</u>		<u>\$230,025</u>
Utilization (Visits)		34,335		37,771

The following is noted with respect to the submitted budget:

- Revenues are based on current reimbursement rates for the type of services they are providing.
- The applicant has indicated that the increase in visits from the first year to the third year is because primary medical care services are projected to grow at the highest level. These are relatively new services at the current private practice site, so the growth rate will be higher, relative to the existing practices.
- The applicant will enter into a lease with annual lease rental payments of \$90,000. The applicant has indicated that the lease agreement will be an arm's length lease arrangement and the applicant has provided two real estate letters attesting to the reasonableness of the per square foot rental.

Utilization broken down by payor source during the first and third years is as follows:

	<u>Year One</u>	<u>Year Three</u>
Commercial FFS	11.00%	11.00%
Commercial MC	31.00%	31.00%
Medicare FFS	16.00%	16.00%
Medicare MC	3.00%	3.00%
Medicaid MC	35.00%	35.00%
Private Pay	2.00%	2.00%
Charity Care	<u>2.00%</u>	<u>2.00%</u>
Total	100.00%	100.00%

Capability and Feasibility

Total project costs of \$2,361,979 will be met as follows: Equity of \$236,198 via the proposed members and a bank loan of \$2,185,781 at an interest rate of 5.25% for a five-year term. The applicant provided a bank letter of interest in support of the financing.

Working capital requirements are estimated at \$573,778, which is equivalent to two months of third year expenses. The applicant will finance \$286,839 at an interest rate of 5.25% for a five-year term. The applicant provided a bank letter of interest in support of the financing. BFA Attachment A is the net worth statements of the proposed members, which indicates the availability of sufficient funds for the equity contribution. The applicant provided an affidavit indicating that equity will be provided disproportionate to ownership interests. BFA Attachment B is the pro forma balance sheet as of the first day of operation, which indicates a positive net asset position of \$523,087.

The submitted budget indicates a net income of \$39,786 and \$230,025 during the first and third years, respectively. Revenues are based on current reimbursement methodologies for the type of services they are providing. The submitted budget appears reasonable.

Conclusion

Subject to the noted contingencies, the applicant has demonstrated the capability to proceed in a financially feasible manner.

Attachments

BHFP Attachment	Map
BFA Attachment A	Personal Net Worth Statement
BFA Attachment B	Pro Forma Balance Sheet
BFA Attachment C	Lease Agreement