

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

**CON REVIEW ESRD-ES-1214-020
RCG MISSISSIPPI, INC. D/B/A RCG COLUMBUS
EXPANSION OF AN EXISTING ESRD FACILITY
CAPITAL EXPENDITURE: \$85,863.20
LOCATION: COLUMBUS, LOWNDES COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. APPLICANT INFORMATION

RCG Mississippi, Inc. d/b/a RCG of Columbus is a Delaware limited liability corporation certified to conduct business in the State of Mississippi. Fresenius Medical Care Holdings, Inc., d/b/a Fresenius Medical Care of North American ("Fresenius") is its parent organization. RCG of Mississippi, Inc. is governed by a 14-member Board, in which two of the members serve as directors. On May 2, 2014, the Secretary of State issued a Certificate indicating that on February 12, 1996, the State of Mississippi issued a Charter/Certificate of authority to RCG Mississippi, Inc. and that the Delaware Corporation has authority to transact business in Mississippi.

B. Project Description

RCG Mississippi, Inc. d/b/a RCG of Columbus requests Certificate of Need (CON) authority to expand its existing End Stage Renal Disease (ESRD) facility. The facility is located at 92 North Brookmore Drive, Columbus, Mississippi. The applicant proposed to add six (6) stations to its existing RCG of Columbus, which will help increase its original capacity back to 35 ESRD stations.

The applicant indicates that On September 27, 2012, RCG Mississippi, Inc. d/b/a Lowndes County Dialysis was approved (CON # R-0859) to relocate/transfer 10 stations from its current 35-station facility to Lowndes County Dialysis to establish a 10-station satellite ESRD facility located between 360 – 428 Hospital Drive, Columbus, Mississippi. This 10-station satellite ESRD facility is located less than a mile from the applicant's RCG of Columbus. After the Lowndes County Dialysis satellite ESRD facility is complete and open for ESRD services it will reduce RCG of Columbus's location from 35 stations to 25 stations.

According to the MSDH Division of Health Facilities Licensure and Certification, RCG Mississippi, Inc. d/b/a Lowndes County Dialysis is not complete or licensed for ESRD services.

The applicant asserts that its ESRD patients must receive dialysis on an average of three times per week, four hours at a time. Therefore, RCG of Columbus believes that in order to ensure continuity of care and accessibility for its patients to remain the same. RCG Mississippi, Inc. d/b/a RCG of Columbus took the following necessary steps to regain its 35-station capacity:

- The applicant asserts that on October 23, 2014 RCG Mississippi, Inc. d/b/a RCG of Columbus filed a Determination of Reviewability (DR) application requesting to expand its facility by four ESRD stations, according to the FY 2014 MSHP criteria and standards. The DR was approved on January 12, 2015 by the Department to allow RCG of Columbus to add four ESRD stations to its reduced capacity of 25 to increase the number of stations to 29 ESRD stations.
- RCG Mississippi, Inc. d/b/a RCG of Columbus filed an application on December 1, 2014 requesting CON authority to add back six (6) stations to its existing ESRD facility. This staff analysis pertains to the December 1, 2014 filing.

The applicant asserts that approval of the previously mentioned DR request and the application mentioned above will return RCG of Columbus facility's to its original 35 stations unit.

The total proposed capital expenditure is \$85,863, at an estimated cost of \$116.62 per square foot for renovated space. According to the applicant, the proposed project involves a total of 610 square feet of renovation space (interior build-out). (See Expenditure Summary for complete percentage breakdown of project). The applicant indicates the proposed capital expenditure will be obligated within six-months after CON approval and the proposed project will be complete within six-months after CON approval.

The applicant indicates that the proposed capital expenditure will be funded from hospital cash reserves. According to the applicant, the proposed project is expected to add 2.0 full-time equivalent employees at an annual additional cost of \$211,737 for the first year. RCG of Columbus included a projected operating statement indicating its facility's first, second, and third years of operation (see Attachment 1).

The MSDH Division of Health Facilities Licensure and Certification approved the site for the project on December 3, 2014.

II. TYPE OF REVIEW REQUIRED

This project is reviewed in accordance with Section 41-7-173 (b) 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.

In accordance with Section 41-7-197(2) of the Mississippi Code 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 March 18, 2015.

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

A. State Health Plan (SHP)

The *FY 2015 State Health Plan* contains policy statements, criteria and standards, and service specific criteria and standards, which the applicant is required to meet before receiving CON authority for the expansion of an existing ESRD facility. This application requests a 6-station expansion of its existing facility. This application is in substantial compliance with applicable criteria and standards.

The *FY 2015 MSHP* state under the headings below:

Policy Statement Regarding Certificate of Need Applications for the Establishment of End Stage Renal Disease ESRD Facilities

PS (12) - Expansion of Existing ESRD Facilities: Existing ESRD facilities may add ESRD stations without certificate of need review, as long as the facility does not add, over a period of two (2) years, more than the greater of four (4) stations or 15% of the facility's current number of certified stations.

As previously mentioned in this application, RCG of Columbus filed a Determination of Reviewability (DR) application requesting to expand its facility by four ESRD stations, according to PS (12) as contained in the *FY 2014 MSHP*. The mentioned DR was approved by the Department on January 12, 2015.

Establishment of an End Sate Renal Disease (ESRD) Facility

SHP Criterion 2 – Expansion of Existing ESRD Facilities

Projects in the event that an existing ESRD facility proposes to add more than the greater of four (4) stations or 15% of the facility's current number of certified stations within a two-year period, then the facility must apply for a Certificate of Need, and shall document that it has maintained a minimum annual utilization rate of 65% for the 12 months prior to the month of the submission of the CON application. NOTE: ESRD Policy Statements 2, 4, 5 and 6, and Need Criterion 1, do not apply to applications for the expansion of existing ESRD facilities.

The applicant submitted this CON application to request authority for the expansion of the existing ESRD facility. Since the proposed application will add six (6) ESRD stations and is within the two (2) year period, the facility is required to comply with this **SHP Criterion 2** as contained in the *FY 2015 MSHP*.

The *FY 2015 MSHP* shows that RCG of Columbus is the only ESRD facility in Columbus, Lowndes County, Mississippi and the applicant asserts its utilization is increasing. RCG of Columbus believes the increase directly relates to area nephrologists who are treating more chronic kidney disease patients in stage 4 and stage 5 that will soon start dialysis at stage 6. RCG of Columbus' application shows that the number of treatments from December 2013 through November 2014 is 24,636 and the number of existing ESRD stations operating is 35, which equates to 75.20%.

Staff received the FY 2013 (July 1, 2012 through June 30, 2013) ESRD Utilization Survey for RCG of Columbus and used the additional ESRD data to calculate the utilization rate for that time frame. Using the months shown above, RCG of Columbus reported 23,076 treatments and staff calculated the utilization rate for the current 35-station ESRD facility as 70.43%.

B. General Review (GR) Criteria

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

GR Criterion 1- Consistency with the *State Health Plan*

The application was reviewed for compliance with the *FY 2015 Mississippi State Health Plan* as discussed above.

GR Criterion 2 – Long Range Plan

The applicant states that its long range plan is to continue to provide high quality, easy to access ESRD services for those residents in need of dialysis services near Columbus. The applicant asserts it was CON approved (CON #R-0859) for the establishment of a 10-station satellite ESRD facility in Columbus, which reduced RCG Mississippi, Inc. d/b/a RCG of Columbus' existing ESRD facility from 35 to 25 ESRD stations. The applicant asserts that the proposed project will allow RCG of Columbus to expand back to 35 stations, which will improve its ability to effectively and efficiently provide high quality ESRD services to residents in and around Columbus. Also, approval of the project will relieve some of the stress caused by the removal of ten (10) of its stations and will address the increase in utilization at RCG of Columbus.

RCG Mississippi, Inc. d/b/a RCG of Columbus filed at the Mississippi State Department of Health a Determination of Reviewability (DR) request on October 24, 2014 for an expansion of the ESRD facility, as allowed by the FY 2015 MSHP. The Department approved RCG of Columbus to add four (4) stations to the remaining ESRD stations after ten (10) of its existing stations are transferred and operational at the satellite facility, Lowndes County Dialysis.

GR Criterion 3 – Availability of Alternatives

The applicant asserts that it considered an expansion by adding stations to the new Satellite facility. However, since RCG of Columbus (main site) is already prepared to handle the requested station increase; both in terms of space, equipment and staff; it is more efficient and cost effective to expand its existing ESRD facility. The applicant states this is the best option to continue providing dialysis services in a most effective and efficient manner. RCG of Columbus believes that its patients would lose options for daily time slots if it does not return its station capacity from 25 ESRD stations to 35. If project is approved, RCG of Columbus states the facility will be able to offer its patients the best opportunity to choose convenient time slots to receive the necessary dialysis treatment.

GR Criterion 4 - Economic Viability

The applicant provided a three-year projected operating statement and it indicates that the total operating revenue over a projected three year period shows an increase from \$3,084,362 to \$4,577,895. In addition, the statement reflects net incomes for the first three years of operation for the project (see Attachment 1).

The applicant asserts that the proposed project will expand RCG of Columbus by adding six (6) ESRD stations and the project will not increase the cost of dialysis services for patients or Medicaid. In addition, the applicant's affiliation with the Fresenius network and its integrated delivery system helps to control healthcare costs.

GR Criterion 5 - Need for the Project

According to RCG of Columbus, dialysis services will continue to be provided to underserved patients, including low income persons, racial and ethnic minorities, women, handicapped persons and other underserved groups, and the elderly.

RCG of Columbus states that its utilization has increased. The proposed project will allow RCG of Columbus to offer its patients the best opportunity to choose convenient time slots to receive the necessary dialysis treatment. The expansion of six (6) stations will improve accessibility for ESRD patients to receive dialysis treatment three (3) times per week and provide assurance that RCG of Columbus' continuity, quality of care needs are met.

The application contains 27 letters of support from patients, and health care professionals supporting the proposed project.

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

GR Criterion 6 - Access to the Facility or Service

According to RCG of Columbus, all patients of the service area, including Medicaid recipients, charity/medically indigent patients, racial and ethnic minorities, women, handicapped persons and the elderly have access and will continue have access to the services of the of its ESRD dialysis services. The proposed project will ensure that Medicare, Medicaid and medically indigent patients residing in and around Columbus will have quality access to care. The applicant states that the hours of operation for the existing ESRD facility is as follows:

According to RCG of Columbus, the facility’s normal business hours will be from 7:00 a.m. to 6:00 p.m., six days per week. However, alternate time arrangements will be available and Medicaid recipients can receive transportation assistance for travel to dialysis appointments.

The applicant submits the following percentage of gross patient revenue (GPR) and actual dollar amount of health care provided to medically indigent care patients for the last two years as well as the projected amounts for the two years following completion of the proposed project:

Medically Indigent Care Patients

	GPR %	GPR Dollar Amount
Historical Year 2012	0	0
Historical Year 2013	2	\$151,962
Projected Year 1	2	\$ 78,291
Projected Year 2	2	\$103,310

According to the applicant, patients without a payor source receive benefits after a 90-day waiting period. The 90 day waiting period results in what is considered medically indigent/charity care at RCG of Columbus.

GR Criterion 7 - Information Requirement

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

GR Criterion 8 - Relationship to Existing Health Care System

RCG of Mississippi, Inc. d/b/a RCG of Columbus is the only existing ESRD facility in Lowndes County, Mississippi. The applicant submits that the target population currently access dialysis services at RCG of Columbus. The nearest existing, comparable services are provided at RCG of Starkville, located over 27-miles from RCG of Columbus.

The applicant believes that if the proposed expansion is not allowed, daily time slots will be limited, leaving less options for patients to receive treatment and will result in more missed appointments.

The applicant provided copies of the renal transplant affiliation agreements with the University of Mississippi Medical Center, Jackson, Mississippi and the University of Alabama at Birmingham.

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

GR Criterion 9 - Availability of Resources

RCG of Columbus submits that it currently has the following personnel: registered nurses, nephrologists, technical/paramedical, administrative/managerial employees at its existing facility. However, the proposed project is expected to add 2.0 full-time equivalent employees at an annual, additional cost of \$211,737 for the first year.

GR Criterion 10 – Relationship to Ancillary or Support Services

The applicant states that it currently has all necessary support and ancillary services for RCG of Columbus and there will be no change in cost or charges as a result of the proposed project.

GR Criterion 11 - Delivery of Health Services

The applicant asserts that RCG of Columbus participates in health training programs in the area to meet the clinical needs in the surrounding area.

GR Criterion 12 – Access by Health Professional Schools

As mentioned in GR Criterion 11, the applicant asserts that RCG of Columbus participates in health training programs in the area to provide clinical experience for students in the surrounding area.

GR Criterion 14 - Construction Projects

The proposed project does not involve new construction; however the project involves 610 square feet of renovation. The applicant estimates the cost of renovation to be \$116.62 per square foot. *RSMeans Building Construction Cost Data 2014, Edition* does not compare costs of renovation projects; however, based on the formulas listed in the FY 2015 MSHP, staff concurs with the renovation costs per square foot captured in Attachment 2 of this document.

The application includes a letter from Licensure approving the site for the expansion of the existing ESRD facility. The application contains a schematic drawing of the proposed project.

The applicant submits that the project complies with state and local building codes, zoning ordinances, and all appropriate regulatory authorities. The applicant affirms that it will comply with all applicable state statutes and regulations for the protection of the environment.

GR Criterion 16 - Quality of Care

RCG of Columbus is a current, licensed provider of a 35-station ESRD facility in Columbus, Lowndes County, Mississippi, according to the MSDH, Division of Health Facilities Licensure and Certification. The applicant asserts that the proposed project will improve accessibility of ESRD patients who must receive dialysis treatment three (3) times per week. The facility is certified for participation in the Medicare and Medicaid programs.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

The total estimated capital expenditure is allocated as follows:

	Item	Cost (\$)	Percent (%) of Total
a.	Construction Cost – New	0	0
b.	Renovation Cost	\$59,780	69.64
c.	Capital Improvements	0	0
d.	Total Fixed Equipment Cost	10,050	11.70
e.	Total Non-Fixed Equipment Cost	4,675	5.44
f.	Land Cost	0	0
g.	Site Preparation Cost	0	0
h.	Fees (Architectural, Consultant, etc.)	5,380	6.26
i.	Contingency Reserve	5,978	6.96
j.	Capitalized Interest	0	0
k.	Other Cost	0	0
	Total Proposed Capital Expenditure	<u>\$85,863</u>	<u>100.00</u>

Information pertaining to the cost per square feet for the proposed renovation cost is listed under GR Criterion 14 – Construction Projects of this document.

B. Method of Financing

The applicant indicates that cash reserves will be used to fund the proposed capital expenditure.

C. Effect on Operating Cost

The applicant's three-year projected operating statement is presented in Attachment 1.

D. Cost to Medicaid/Medicare

The applicant projects the cost to third party payors as follows:

Payor Mix	Utilization Percentage (%)	First Year Revenue (\$)
Medicare	69	\$ 2,709,900
Medicaid	2	97,196
Commercial	19	724,468
Self Pay	0	0
Charity Care	0	0
Other	10	383,017
Total	100	\$ 3,914,581

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. For the expansion of an existing ESRD facility, the Division of Medicaid does not foresee any increase in allowable costs to Medicaid as a result of the project and does not oppose the transaction.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the criteria and standards for the expansion of an existing ESRD facility as contained in the *FY 2015 Mississippi State Health Plan*; the *Mississippi Certificate of Need Review Manual, 2011 Revision*; and duly adopted rules, procedures, and plans of the Mississippi State Department of Health.

The Division of Health Planning and Resource Development recommends conditional approval of the application submitted by RCG Mississippi, Inc. d/b/a RCG of Columbus for the expansion of an existing ESRD facility. The six (6) ESRD stations are conditioned upon the host facility operating at 65 percent or more after the first full year of the satellite facility becoming operational, with the satellite facility having a utilization rate of 55 percent or more for its first year of operation.

Attachment 1

RCG of Columbus Three-Year Operating Statement (with Project)			
	Year 1	Year 2	Year 3
Revenue			
Patient Revenue:			
Inpatient	0	0	0
Outpatient	3,914,581	5,165,520	6,049,358
Gross Patient Revenue	\$3,914,581	\$5,165,520	\$6,049,358
Charity Care	0	0	0
Deductions from Revenue	0	0	0
Net Patient Revenue	\$3,914,581	\$5,165,520	\$6,049,358
Other Operating Revenue	0	0	0
Total Operating Revenue	\$3,914,581	\$5,165,520	\$6,049,358
Expenses			
Operating Expenses:			
Salaries	\$ 855,102	\$ 1,133,901	\$1,334,472
Benefits	320,664	425,213	500,427
Supplies	1,023,975	1,344,522	1,566,835
Services	0	0	0
Lease	232,705	232,705	232,705
Depreciation	101,995	101,995	101,995
Interest	0	0	0
Other	549,921	722,069	841,461
Total Expenses	\$3,084,362	\$3,960,405	\$4,577,895
Net Income (Loss)	\$830,219	\$1,205,115	\$1,471,463
Assumptions			
Inpatient days*	0	0	0
Outpatient days*	0	0	0
Procedures	14,508	18,860	21,762
Charge/outpatient day	0	0	0
Charge per inpatient day	0	0	0
Charge per procedure	\$270	\$274	\$278
Cost per inpatient day	0	0	0
Cost per outpatient day	0	0	0

Attachment 2

**ESRD-ES-1214-020
 RCG of Columbus
 Computation of Renovation Cost**

Cost Component	Total	Renovation Cost
New Construction Cost	0	0
Renovation Cost	\$59,780	\$59,780
Total Fixed Equipment Cost	\$10,050	0
Total Non-Fixed Equipment Cost	\$4,675	0
Land Cost	0	0
Site Preparation Cost	0	0
<i>Fees (Architectural, Consultant, etc.)</i>	\$5,380	\$5,380
<i>Contingency Reserve</i>	\$5,978	\$5,978
<i>Capitalized Interest</i>	0	0
<i>Other</i>	0	0
Total Proposed Capital Expenditure	\$85,863	\$ 71,138
Square Footage	610	610
<i>Allocation Percent</i>		100%
Costs Less Land, Non-Fixed Eqt., Other	\$71,138	\$71,138
Cost Per Square Foot	\$116.62	\$116.62

Source: Mississippi Certificate of Need Review Manual, Revised 2011 and FY 2015 MSHP.