

**DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT  
AUGUST 2008**

**CON REVIEW ESRD-RLS-0508-016  
RENAL CARE GROUP OF MISSISSIPPI, LLC  
D/B/A RCG STARKVILLE  
RCG STARKVILLE RELOCATION OF EXISTING ESRD FACILITY  
CAPITAL EXPENDITURE: \$1,182,659  
LOCATION: STARKVILLE, OKTIBBEHA COUNTY, MISSISSIPPI**

**STAFF ANALYSIS**

**I. PROJECT SUMMARY**

A. Applicant Information

Renal Care Group of Mississippi, Inc., d/b/a RCG- Starkville, is a Delaware corporation authorized to do business in the state of Mississippi. RCG Mississippi, Inc. was purchased in April 2006 by Fresenius Medical Care (FMC) North America. Fresenius Medical Care has a four-member Governing Body.

RCG-Starkville (RCG) currently operates a 21-station ESRD facility in Starkville, Oktibbeha County.

B. Project Description

RCG-Starkville requests Certificate of Need (CON) authority to relocate and replace its 21-station ESRD facility from 104 Garrard Street to 107 Guest Drive, Starkville, Mississippi. The new site is three miles south of the current site near the intersection of Highways 25 and 182. The applicant states that the current facility is approximately 18 years old and is inadequate to meet the needs of current patients.

RCG Starkville proposes to construct a building consisting of approximately 10,000 square feet of space, resulting in approximately 5,000 square feet of additional space. They state that they are unable to renovate the current building due to large capital expense and disruption to ongoing operations. The new site will almost double the size of the current facility, be more conducive to providing quality care, and offer the ability to expand operations.

In addition, the applicant cites the following objectives for the project:

- Allow for an addition of three exam rooms and a physician office;
- A new more advanced computer monitoring system to be installed;
- The unit will provide better parking for patients, staff, and vendors;
- The new site will provide an easier access to the unit due to being located right off a major access road, easier access for delivery of supplies;
- Provide for a more clinically appealing unit for staff and patients; and
- Allow for expansion of patient care services in the future.

The project will require an addition of 2.2 FTE personnel the first year. The total proposed capital expenditure of the project is \$1,182,659.

The applicant expects to obligate the capital expenditure in September with completion in April 2009.

The Mississippi State Department of Health, Division of Health Facilities Licensure and Certification, found the site acceptable for the stated use.

## II. TYPE OF REVIEW REQUIRED

This project for the relocation/replacement of an end stage renal disease facility is reviewed in accordance with Section 41-7-191, subparagraph (1)(b), of the Mississippi Code 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 of 1972 Annotated, as amended, any affected person may request a public hearing on this project within 20 days of the publication of the staff analysis. The opportunity to request a hearing expires on September 8, 2008.

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

### A. State Health Plan (SHP)

The 2007 Mississippi State Health Plan contains policy statements and service specific criteria and standards which must be met before an applicant is granted CON authority to establish an ESRD facility. However, the applicant proposes to relocate and replace an existing 21-station ESRD facility. In addition, the applicant does not request an expansion of its facility. The Plan does not contain criteria and standards for the relocation and replacement of an entire facility as proposed in the application; however, RCG Mississippi, Inc.'s application is in compliance with the overall objectives of the Plan.

### B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, revised February 23, 2008*, addresses general criteria by which all CON applications are reviewed. The applicable criteria are discussed below.

#### **GR Criterion 1 – State Health Plan**

This application is in compliance with the overall objectives of the FY 2007 *State Health Plan*. The applicant proposes to relocate and replace its existing 21-station ESRD facility to better meet the needs of its patients.

## **GR Criterion 2 - Long Range Plan**

RCG Starkville believes that relocating to a new location will ensure its current and future patients have easy access to dialysis services.

## **GR Criterion 3 - Availability of Alternatives**

RCG Starkville submits that FMC considered a renovation project at the current site; however, this would be disruptive to operations and patient care. The current site is 1.2 acres which did not enable the applicant to expand the clinical area and add additional office space needed. The applicant states that it consulted with a local real estate agent in hopes of finding space within one mile of the current location, but no suitable site was found.

According to the applicant, the relocation will allow it to continue operations at the current location without disruption to patient care. The applicant states that the new site, located off of a major highway, will provide better access to care and accommodate any future patient growth.

## **GR Criterion 4 - Economic Viability**

Based on the applicant's three-year projections, this project will realize a net income of \$705,152 the first year, \$718,852 the second year, and \$732,116 the third year of operation. The applicant states that Fresenius Medical Care is a global provider with revenues totaling more than nine billion dollars per year. This project will be funded through retained earnings.

- a. **Proposed Charge:** The applicant projects average charges of \$238.69 per dialysis treatment for the first year of operation for the proposed project. The applicant projects cost of \$183.04 per dialysis treatment for the first year of operation for the proposed project.
- b. **Projected Levels of Utilization:** RCG Starkville makes the following projections of dialysis treatments to be performed during the first three years of operation: 12,672, 13,824, and 14,976 respectively.
- c. **Project's Financial Feasibility Study:** The capital expenditure for this project is \$1,182,659 thus a feasibility study is not required.

## **GR Criterion 5 - Need for the Project**

- a. **Access by Population Served:** RCG Starkville states that all patients are accepted regardless of race/ethnicity, age, ability to pay, or sex. The

applicant proposes to continue serving patients in its current service area.

- b. **Relocation of Services:** This application is for the relocation within the same service area of a 21-station ESRD facility in Starkville. The applicant submits that the site under contract to be purchased is in a better location and offers more acreage to expand operations. All current facilities within a 30-mile radius are owned by the same corporation. The applicant is operating at 70% occupancy with 84 patients.
- c. **Probable Effect on Existing Facilities in the Area:** The applicant submits that it is the only ESRD provider in the service area and the current facility does not have enough operating space for current operations. The applicant does not propose an expansion of stations rather to relocate and replace existing stations.
- d. **Community Reaction:** The application contains 21 letters of support for 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 the applicant, all patients of the ESRD service area, including Medicaid recipients, charity/medically indigent patients, racial and ethnic minorities, women, handicapped persons, and the elderly, will have access to the services of the facility.

Additionally, the new location proposed by the applicant is approximately three miles from the present facility. The applicant does not anticipate any significant travel time or transportation changes as a result of this project.

The following table shows the current and projected estimated gross patient revenues of health care provided to charity/medically indigent patients for years 2006, 2007, and the first two years after completion of the proposed project:

Projected Year	Total Dollar Amount of Gross Patient Revenue
FY 2006	\$24,000 (1%)
FY 2007	\$23,000(1%)
1	\$29,000 (1%)
2	\$30,000(1%)

**GR Criterion 7 - Information Requirement**

The applicant states that it will record and maintain the requested information required by this criterion and make it available to the Mississippi State Department

of Health within 15 days of request.

### **GR Criterion 8 - Relationship to Existing Health Care System**

As previously mentioned, there are no existing comparable services within the service area. The applicant's current facility is the only provider of ESRD services in Oktibbeha County. Patients in the area currently utilize the applicant's existing facility and it is anticipated that patients will continue to do so after the proposed relocation and expansion.

The applicant contends that the unit only targets ESRD patients that have been referred by a physician. Once a patient is referred, they are admitted through an admitting process. The project is not expected to have an adverse effect on the existing health care system.

### **GR Criterion 9 - Availability of Resources**

The applicant states it has a current staff from all the disciplines necessary for the operation of its facility and has successfully recruited via newspaper advertising, job fairs, web site postings, and word of mouth for the operation of its current facility and will take the same approach for its expansion. The applicant states that it has not experienced any significant problems in hiring or retaining qualified staff.

### **GR Criterion 10 – Relationship to Ancillary or Support Services**

RCG Starkville indicated that it currently utilizes Spectra Laboratories for labs that are necessary to care for patients. Any other service is based on physician referral/orders.

Charges to the patients or vendors are not expected to change. Overhead will increase due to cost of new unit, but, according to the applicant, this is not unexpected.

### **GR Criterion 11 – Health Professional Training Programs**

According to the applicant, RCG Starkville constantly looks for ways to offer access to its local nursing schools or opportunities for their students.

### **GR Criterion 16 - Quality of Care**

The applicant submits that it has excellent patient outcomes. The current year end mortality rate was 15.7 deaths per 100 patients, according to the applicant. The new facility will be a state of the art ESRD facility that will provide more space for the staff and patients.

#### IV. FINANCIAL FEASIBILITY

##### A. Capital Expenditure Summary

Construction Cost – New	\$1,032,659
Land Cost	140,000
Site Preparation	<u>10,000</u>
Total	<u>\$1,182,659</u>

The above capital expenditure is for the construction of 10,000 square feet at a cost of \$104.27 per square foot. The cost per square foot compares favorably with similar projects reviewed within the past year. The *Means Construction Cost Data* does not compare leasehold improvement costs for ESRD facilities. Equipment will be moved from the current facility.

##### B. Method of Financing

The applicant proposes that the project will be financed from cash reserves. The financial statements contained in the application from Fresenius Medical Care, Inc. indicated sufficient cash to fund the project.

##### C. Effect on Operating Cost

The applicant's projected expenses, utilization, and results from operation for the first three years following completion of this project are presented in Attachment 1.

##### D. Cost to Medicaid/Medicare

ESRD treatment is a Medicare entitlement. As such, the Medicare program will absorb a majority of the costs associated with this project. The cost to the Medicaid program will be negligible.

#### V. RECOMMENDATION OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of the proposed application for comment. The Division of Medicaid took no position on this project.

#### VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with overall objectives contained in the *FY 2007 State Health Plan*; the *Mississippi Certificate of Need Review Manual, revised February 23, 2008*; and all adopted rules, procedures, and plans of the Mississippi State Department of Health.

**HP&RD (08/08)  
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Therefore, the Division of Health Planning and Resource Development staff recommends approval of the application submitted by Renal Care Group of Mississippi, Inc. d/b/a RCG-Starkville for the relocation of its ESRD facility in Starkville, Oktibbeha County.

Attachment 1

Three-year Projected Operating Statement  
 RCG-Starkville

Item	Year 1	Year 2	Year 3
<b>Revenue</b>			
Outpatient Care Revenue	\$3,024,652	\$3,145,638	\$3,271,464
Deduction from Revenue (Charity Care)			
<b>Net Patient Revenue</b>	<b>\$3,024,652</b>	<b>\$3,145,638</b>	<b>\$3,271,464</b>
<b>Expenses</b>			
Salaries	\$ 580,540	\$ 615,183	\$ 651,907
Benefits	203,189	215,314	228,168
Supplies	880,786	916,017	952,658
Services			
Lease	8,542	8,491	8,423
Depreciation	80,816	81,176	81,518
Interest			
Other	565,627	590,604	616,673
<b>Total Expenses</b>	<b>\$2,319,500</b>	<b>\$2,426,785</b>	<b>\$2,539,347</b>
<b>Net Operating Income</b>	<b>\$ 705,152</b>	<b>\$ 718,853</b>	<b>\$ 732,116</b>
<b>Utilization Statistics</b>			
Outpatient Visits	55	54	53
Treatments	12,672	13,824	14,976
Charge per Treatment	\$ 238.69	\$ 227.55	\$ 218.45
Cost per Treatment	\$ 183.04	\$ 175.55	\$ 169.56