

**DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
FEBRUARY 2007**

**CON REVIEW ESRD-RLS-1206-040
BIO-MEDICAL APPLICATIONS OF MISSISSIPPI, INC.
D/B/A SOUTH MISSISSIPPI KIDNEY CENTER
REPLACEMENT/RELOCATION OF 16-STATION ESRD FACILITY
FROM BAY ST. LOUIS TO DIAMONDHEAD
CAPITAL EXPENDITURE: \$794,919
LOCATION: DIAMONDHEAD, HANCOCK COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Bio-Medical Applications of Mississippi, Inc. is a Delaware business corporation, authorized to do business in the state of Mississippi. The entity has 12 corporate officers. The applicant was awarded an Emergency CON on October 27, 2006, with an expiration date of January 27, 2007, to replace the South Mississippi Kidney Center that was destroyed as a result of Hurricane Katrina on August 29, 2005.

B. Project Description

Bio-Medical Applications of Mississippi, Inc. d/b/a South Mississippi Kidney Center (SMKC), requests Certificate of Need authority to replace and relocate its 16-station end stage renal disease (ESRD) facility from 300 Drinkwater Boulevard, Bay St. Louis, Mississippi, to 4300 Aloha Drive, Diamondhead, Mississippi. The applicant states that the approximate distance between the current location and that proposed is 14 miles. The applicant received an Emergency CON on October 27, 2006, for the project. An Emergency CON, however, is only valid for 90 days. Therefore, the applicant submitted this application in compliance with the Department's regulations which require the recipient of an Emergency CON to submit an appropriate CON application concerning the same project within 45 days of the effective date of the Emergency CON.

The applicant submits that the Bay St. Louis location was approximately 2.5 miles from the Gulf of Mexico, whereas the proposed location at Diamondhead is closer to the Bay of St. Louis and is approximately 14 miles from the Gulf of Mexico. According to the applicant, the Diamondhead location is also further above sea level than the Bay St. Louis location, and thus, better protected from storm surge.

The new facility will consist of 6,000 square feet of leased space. The applicant will renovate this rented space by installing flooring with specifications critical for the day-to-day operation of an ESRD facility, installing counters, partitions, walls, shelving, fixtures, machinery, and equipment necessary to conduct its business; and installing an emergency generator, water treatment equipment, and process piping necessary to operate the dialysis equipment.

The project will require 11 FTE personnel at an estimated annual cost of \$312,480.

The proposed site for the project has been approved by the MDH Division of Health Facilities Licensure and Certification.

The applicant estimates that the capital expenditure for this project will be obligated upon CON approval, with completion by July 1, 2007.

II. TYPE OF REVIEW REQUIRED

Applications for the replacement and relocation of a health care facility or portion thereof are reviewed in accordance with Section 41-7-191, subparagraph (1)(b) and (e) of the Mississippi Code 1972, Annotated, as amended, and duly adopted rules, procedures, plans, criteria, and standards of the Mississippi 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 March 7, 2007.

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, as set forth below. According to the Plan, when a provider proposes to offer ESRD services in an ESRD facility service area where he does not currently provide services or proposes to transfer existing ESRD units from a current location into a different ESRD facility service area, it will constitute the establishment of a new ESRD health care facility.

SHP Criterion 1 - Need

An applicant proposing the establishment of a limited care renal dialysis facility or the relocation of a portion of an existing ESRD facility's dialysis stations to another location shall demonstrate that each individual ESRD facility in the proposed ESRD Facility Service Area has (a) maintained a minimum annual utilization rate of 80 percent or (b) that the location of the proposed ESRD facility is in a county which does not currently have an existing ESRD facility but whose ESRD relative risk score using current ESRD Network 8 data is 1.5 or higher.

The applicant proposes to re-establish a 16-station ESRD facility in Diamondhead, Hancock County, to replace its facility, originally located in Bay St. Louis, Hancock County, destroyed by Hurricane Katrina in August 2005. The applicant submits that the only ESRD facilities within a 30-mile radius of the proposed facility are BMA facilities located in Harrison County, as follows:

Facility	County	Distance
South MS Kidney Center Orange Grove	Harrison	20.54 miles
South MS Kidney Center-N. Gulfport	Harrison	21.05 miles
South MS Kidney Center of Gulfport	Harrison	24.35 miles

Source: Map Quest

Although the South Mississippi Kidney Center-Bay St. Louis facility has not offered ESRD services within the past 12 months, it is not considered a new facility in the service area. The former SMKC facility was taken out of service due to circumstances beyond the applicant's

control. Also, all facilities within the service area co-existed prior to Hurricane Katrina in 2005; therefore, criteria contained in the State Health Plan for the establishment of an ESRD facility were not given consideration in this staff analysis. The *State Health Plan* does not contain criteria and standards for the re-establishment of ESRD facilities; however, the CON Review Manual does allow applicants to file for an Emergency CON when extenuating circumstances warrant such a request. An Emergency CON is valid for a period of 90 days, and applicants receiving an Emergency CON must file an application for a Certificate of Need within 45 days of receiving such CON. The applicant filed and received approval for an Emergency CON due to the destruction of its facility in 2005. This application was filed as a continuation of the Emergency CON granted.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual*, effective November 12, 2006, as amended, contains general review criteria which all CON applications must meet.

GR Criterion 1 – Compliance with the *State Health Plan*

The *FY 2006 State Health Plan* does not contain criteria and standards for the re-establishment of an ESRD facility when the facility was destroyed due to circumstances beyond the applicant's control. The application, however, is in compliance with the overall objectives of the Plan.

GR Criterion 2 - Long Range Plan

The applicant submits that its goal is to provide ESRD services in a location that is less susceptible to damage from future hurricanes and their storm surges. By relocating its services from Bay St. Louis to Diamondhead, the applicant states the facility will no longer be located 2.5 miles from the Gulf of Mexico, but instead will be inland, approximately 14 miles from the Gulf of Mexico. The applicant states that the proposed location is also higher above sea level and did not flood during Hurricane Katrina. The relocation of this facility in the same county will help ensure that residents, patients, and physicians living in the ESRD Service Area will have continuous access to dialysis services in the event of another hurricane.

GR Criterion 3 - Availability of Alternatives

The applicant submits that it considered remaining at its previous location in Bay St. Louis. However, after reviewing several structural and environmental reports, it determined the cost associated with demolition and rebuilding or a complete renovation with partial demolition was not reasonable given the current location is 2.5 miles from the Gulf of Mexico. In addition, the applicant states that the facility was leased, and the landlord would not make the necessary, extensive and expensive repairs to bring the location up to standards acceptable to provide health services. Therefore, the applicant believes that the relocation of the ESRD stations to Diamondhead, in the same county and same ESRD Service Area but further from the Gulf of Mexico and at a higher elevation, was the best alternative to ensure the continued provision of dialysis services.

GR Criterion 4 - Economic Viability

The project appears to be economically viable. The applicant projects net operating income of \$49,427 the first year, \$66,012 the second year, and \$84,792 the third year.

The applicant's proposed charge per dialysis patient is \$307 the first year, \$310 the second year, and \$313 the third year of operation of this project. The applicant expects that the proposed charges and profitability will be similar to those experienced by other ESRD facilities in the state and along the Gulf Coast.

The applicant expects that the projected levels of utilization are in line with the level of services experience in similar facilities in the service area and state.

GR Criterion 5 - Need

The applicant proposes to continue offering dialysis services at its relocated facility in Diamondhead. The applicant submits that as residents, patients, and physicians return to the Gulf Coast, they are in need of healthcare services within their service area. Furthermore, the applicant states that relocating the facility from Bay St. Louis to Diamondhead will ensure the continuous delivery of dialysis services in the event of another hurricane.

The applicant submits that the facility experienced flood waters of approximately four to five feet, extensive roof damage, and extensive structural damage, basically gutting the entire facility. In addition to the water damage experienced by the facility and the loss of its equipment and systems including the plumbing, electrical, and HVAC systems, the facility has experienced extensive mold growth. Reports contained in the application recommend extensive repair, including partial demolition, and replacement of all systems; or destroying and rebuilding the entire facility.

Letters included in the application indicate that patients are traveling approximately 45 minutes and outside of the ESRD Service Area to receive needed dialysis services, multiple times a week. Patients also stress that the travel is a hardship due to weakness or tiredness after treatment. The applicant estimates that approximately 25-30 patients will return to the Hancock County location when the new facility is completed and opened. Five patients submitted statements that the travel time currently causes a hardship for them and that they will relocate to the new facility if approved. The applicant submits that the relocation and offering of services with the approval of this application will ensure the needs of these patients and their physicians for dialysis services within their Service Area will continue to be met.

Three other Bio-Medical Applications of Mississippi ESRD facilities are located in Harrison County, within a 30-mile radius of the proposed facility. These facilities co-existed prior to Hurricane Katrina; therefore, staff contends that the reestablishment of the Bay St. Louis facility in Diamondhead should not have an adverse affect on existing facilities.

The application contained eight letters of support for the project from local businesses and patients.

GR Criterion 6 - Access to Facility/Service

The applicant states that all patients will be served without regard to race, sex, age, physical abilities, or the ability to pay. The applicant submits that 2.2% of its gross patient revenue in FY 2004, and 6.5 in FY 2005 were provided to medically indigent patients. It projects that approximately 2.5% of its gross patient revenue will be provided to this group the first and second years after completion of this project.

The applicant estimates that the facility in Diamondhead will save patients traveling from the ESRD Service Area approximately 45 minutes. The applicant proposes that the facility will be open from 6 a.m. to 4 p.m. Monday through Saturday.

GR Criterion 7 - Information Requirement

The applicant affirmed that it will maintain the required information and make it available to the Department within 15 business days of request.

GR Criterion 8 - Relationship to Existing Health Care Service

The applicant submits that the only facilities within a 30-mile radius of the proposed facility are BMA facilities, particularly the Orange Grove, North Gulfport, and Gulfport facilities which are located in Harrison County. The applicant states that in the past, the population accessed dialysis services at the Bay St. Louis facility; however, after Hurricane Katrina, the Bay St. Louis facility was closed so that dialysis patients were traveling approximately 45 minutes to receive needed dialysis services. The applicant further submits that establishing ESRD services at the Diamondhead location will provide the population with easy access to dialysis services within the ESRD Service Area and help ensure that dialysis services will not be interrupted in case of another hurricane.

GR Criterion 9 - Availability of Resources

BMA asserts that sufficient personnel and physicians are available to staff the facility. According to the applicant, prior to Hurricane Katrina, BMA operated 16 ESRD stations within the ESRD Service Area with sufficient personnel and physicians. However, the applicant states that if it determines that it needs additional personnel, it will advertise through local papers, job fairs, on its website, and through word-of-mouth regarding any available positions.

GR Criterion 10 – Relationship to Ancillary or Support Services

The applicant submits that the project will not have an effect on ancillary services.

GR Criterion 11 – Health Professional Training Programs

The applicant states that it will attempt to provide clinical experience for health professional training programs in the service area.

GR Criterion 12 – Access by Health Professional Schools

The applicant states that it will attempt to provide clinical experience for health professional training schools in the service area.

GR Criterion 16 - Quality of Care

The applicant submits that prior to Hurricane Katrina it provided quality ESRD services at its facility and the services to be provided at the Diamondhead location will continue to provide dialysis patients in the ESRD Service Area with a high quality of care. The applicant further submits that approval of the project will ensure that the population will have easily accessible

ESRD services within the ESRD Service Area, thereby increasing the population's quality of care.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

Cost Item	Projected Cost	% of Total
Construction Cost – New	\$ 552,520	70.0%
Renovation	0	0.0%
Capital Improvements	0	0.0%
Total Fixed Equip Cost	5,500	1.0%
Total Non-Fixed Equip Cost	47,500	6.0%
Land Cost	0	0.0%
Site Prep Cost	0	0.0%
Fees	44,202	5.0%
Contingency Reserve	0	0.0%
Capitalized Interest	0	0.0%
Other Cost – Testing Services	145,197	18.0%
Total Proposed Expenditures	\$ 794,919	100.0%

The above capital expenditure is for leasehold improvements to approximately 6,000 square feet of leased spaced to accommodate 16 ESRD stations, and associated equipment and fees. The cost is estimated to be \$100.37 per square foot. The *Means Construction Cost Data* does not compare leasehold improvement costs for ESRD facilities.

B. Method of Financing

- The applicant proposes that the project will be financed from cash reserves. The building will be leased for a 10-year term at \$84,000 and equipment for a term of 5 years at \$42,900, for a total lease expense of \$126,900 the first year.

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 November 12, 2006; and all adopted rules, procedures, and plans of the Mississippi Department of Health.

The project is necessary as a result of the devastation caused by Hurricane Katrina in August 2005. The applicant requested and received an Emergency CON for the replacement of its facility that was destroyed by the hurricane. An Emergency CON is valid for only 90 days and must be followed by an application for a Certificate of Need within 45 days of receipt. The applicant is in compliance with this rule.

Therefore, the Division of Health Planning and Resource Development staff recommends approval of the application submitted by Bio-Medical Applications of Mississippi for the replacement/relocation of a 16-station ESRD facility within Hancock County.

Attachment 1

**South Mississippi Kidney Center - Diamondhead
 Three-year Projected Operating Statement
 16-Station ESRD Facility**

Item	Year 1	Year 2	Year 3
Revenue			
Outpatient Care Revenue	\$1,371,831	\$1,519,636	\$1,670,258
Deduction from Revenue (Charity Care)	(145,839)	(161,552)	(177,565)
Net Patient Revenue	\$1,225,992	\$1,358,084	\$1,492,693
Expenses			
Salaries	\$ 249,984	\$ 276,918	\$ 304,365
Benefits	62,496	69,229	76,091
Supplies	424,080	465,120	506,160
Services			
Lease	126,900	137,890	148,645
Depreciation	26,784	28,886	30,902
Interest			
Other	286,321	314,029	341,738
Total Expenses	\$1,176,565	\$1,292,072	\$1,407,901
Net Operating Income	\$ 49,427	\$ 66,012	\$ 84,792
Utilization Statistics			
Total Outpatient Days	313	313	313
Total Treatments	4,464	4,896	5,328
Utilization Rate	30%	33%	36%
Cost per Treatment	\$264	\$264	\$264
Charge per Treatment	\$307	\$310	\$313