

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
SEPTEMBER 19, 2016**

**CON REVIEW: ESRD-0816-017
RCG OF NEWTON, INC. D/B/A RCG OF NEWTON
COST OVERRUN TO CON R-0880 (ESRD-RLSF-0514-005)
FOR RELOCATION OF ESRD FACILITY WITHIN ONE
MILE AND ALLOWED EXPANSION OF STATIONS
ORIGINAL CAPITAL EXPENDITURE: \$3,630,597.50
ADDITIONAL CAPITAL EXPENDITURE: \$167,033.10
REVISED CAPITAL EXPENDITURE: \$3,797,630.60
LOCATION: NEWTON, NEWTON COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

RCG of Newton, Incorporated d/b/a RCG of Newton is a business corporation located at 121 Old 15 Loop Newton, Newton County, Mississippi. Fresenius Medical Care-North America, Incorporated (FMC-NA) is the parent company of RCG of Newton, Incorporated d/b/a RCG of Newton.

In the original application, the applicant provided a Certificate from the Secretary of State (SOS) dated May 2, 2014, verifying that the corporation was issued a Charter/Certificate of Authority on February 12, 1996. Based on the SOS Certificate, the company has been providing dialysis for End Stage Renal Disease (ESRD) patients for about 18 years. The document indicates that the business is incorporated in the State of Delaware; however, it is authorized by the SOS to do business in Mississippi and it is in good standing with the State. The applicant indicates that RCG Mississippi, Incorporated is governed by two directors and 14 officers.

B. Project Background

RCG of Newton, Inc. d/b/a RCG of Newton was granted CON #R-0880 and the effective date of the CON was October 30, 2014, with an expiration date of October 30, 2015, to relocate its ESRD facility within one mile of its current facility RCG of Newton, Inc. d/b/a RCG of Newton and allow expansion of 16 ESRD stations.

The project involved the construction of a new building that will consist of 9,486 square feet and will be located on Old Highway 15 in Newton, Newton County, Mississippi.

The original CON application received site approval from the Mississippi Department of Health, Division of Licensure and Certification (Licensure).

The total approved capital expenditure for the project was \$3,630,597.50, which was to be funded by the applicant using money from the developer and cash reserves from the applicant.

The Department approved the project for a six months extension on April 20, 2016 to extend the expiration date of the CON to October 31, 2016.

B. Project Description

RCG of Newton, Inc. d/b/a RCG of Newton requests CON authority for a Cost Overrun of \$167,033.10 to CON No. R-0880. Through a Resolution, the officers consented to request approval from the Department for an additional capital expenditure of \$167,033.10 regarding the original Certificate of Need (CON) application. The cost overrun application filed with the Department requests CON authority to increase the capital expenditure of CON No. R-0880 from \$3,630,597.50 to \$3,797,630.60.

The applicant asserts the project has commenced; however there has been an unanticipated need for additional site work, soil remediation and modification of the retaining walls.

The applicant states the additional work needed is necessary for a structurally sound building. The applicant will save time and costs for future repairs to the facility if it undertakes the minor work now to ensure that the building is properly constructed.

As shown in the Expenditure Summary section below, the most significant changes are as follows:

- New construction (increase of \$151,867.00): Additional cost for site work, soil remediation and retaining wall modification for structurally sound building;
- Contingency (increase of \$8,966.10): Essentially, the contingency (for project “unknowns”) was absorbed through the project as the scope of work became more clearly defined;
- Architectural, Consultant Fees, etc. (increase of \$6,200.00): Additional soil remediation and modification;
- 20% of the work is completed; and
- Capital Expenditure made to date is \$755,123.

II. TYPE OF REVIEW REQUIRED

The Mississippi State Department of Health (MSDH) reviewed the original project for the relocation of an end stage renal disease facility in accordance with and Section 41-7-191, subparagraph (1)(b)(e) and (j) of the Mississippi code 1972, Annotated, as amended, and duly adopted rules, procedures, plans, criteria and standards of the Mississippi State Department of Health.

The State Health Officer reviews all projects for cost overruns in accordance with 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 or 1972 Annotated, as amended, any affected person may request a public hearing on this project within 10 days of publication of this staff analysis. The opportunity to request a hearing expires on September 29, 2016.

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

A. State Health Plan (SHP)

The *FY 2014 Mississippi State Health Plan (MSHP)* was in effect at the time the original application was submitted to the Department and the original application was found to be in substantial compliance with the *FY 2014 MSHP*. The cost overrun project continues to be in substantial compliance with the *FY 2015 MSHP*.

B. General Review (GR) Criteria

The *Certificate of Need Review Manual, 2011 Revision (CON Review Manual, 2011)* was in effect at the time the original application was submitted to the Department. The original project was in substantial compliance with the *CON Review Manual, 2011* and the CON cost overrun application continues to be in compliance with applicable General Review Criteria and Standards contained in the *CON Review Manual, 2011*.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

	Original Approved Amount	Revised Amount	Increase/ (Decrease)
1. New Construction Cost	\$2,624,800.00	\$ 2,776,667.00	\$151,867.00
2. Construction/Renovation	0	0	0
3. Land	\$109,100.00	\$109,100.00	0
4. Site Work	0	0	0
5. Fixed Equipment*	\$220,308.00	\$205,000.00	-\$15,308.00
6. Non-Fixed Equipment*	\$28,075.00	\$156,805.00	\$128,730.00
7. Contingency*	\$262,480.00	\$307,626.60	\$45,145.00
8. Fees (Architectural, Consultant, etc.)	\$236,232.00	\$242,432.00	\$6,200.00
9. Capitalized Interest	0	0	0
10. Capitalized Improvement	0	0	0
11. Other*	\$149,602.50	0	-\$149,602.50
Total Capital Expenditure	\$3,630,597.50	\$3,797,630.60	\$167,033.10

Regarding the Capital Expenditure Summary table shown above, the asterisks represent where RCG of Newton moved some amounts to other categories and the symbol next to "Other" shows the category was deleted.

Briefly, RCG of Newton asserts that the generator cost of \$15,308.00 was moved from the Fixed Equipment category to the Non-Fixed Equipment category. Also, the cost for office furniture, exterior signage, TV system, communications and computers/IT in the amount of \$113,422.00 was added to the original cost for Non-Fixed Equipment (dialysis chairs and ancillary med equipment) of \$28,075 to create a total of \$156,805.00.

The FFE Contingency of \$36,180.50 and the new cost of Contingency of \$8,966.10 were added to the original cost of construction Contingency of \$262,480.00 to create a total \$307,626.60.

For further clarification, the applicant asserts that the "Other" category was deleted in the *Revised Amount* because, as mentioned above, the FFE Contingency of ten percent, \$36,180.50 was moved to the Contingency category and the cost of office furniture, exterior signage, TV system, communications, and computers/IT in the amount of \$113,422.00 was also moved to the Non-Fixed Equipment category.

The above table represents approximately a 4.6% increase in the capital expenditure by RCG of Newton, Inc. d/b/a RCG of Newton. Based on Brown Studio Architecture cost estimates included in the application, the landlord proposed to construct a shelled building consisting of 9,486 square feet at a project budget cost of \$3,630,597.50. The applicant provided a construction cost estimate of \$326.21 per square foot. RCG of Newton asserts that the only capital portion of the project the applicant is responsible for is the amount of \$397,986. The construction cost is being handled by the developer (there is no renovation). As shown above, the proposed increases are in new construction, the contingency amount and fees. The applicant asserts 20 percent of the work has been completed as of the August 5, 2016 filing date of the cost overrun application.

B. Method of Financing

The original project listed the developer and the applicant as the funding sources for the project; the amounts of \$3,232,612 and \$397,986 (cash reserves), respectively. The applicant asserts the funding sources will remain the same.

C. Effect on Operating Cost

The applicant's projections of gross revenues for the first, second, and third year of operation, expenses, net income, utilization, cost, charges depreciation schedule and Three-Year Projected Operating Statement are shown in the original application under Attachment 1. The applicant asserts the above mentioned will remain the same in the cost overrun application filed on August 5, 2016. The applicant provided Consolidated Financial Statements for 2013 and 2014 from the parent company, Fresenius Medical Care.

D. Cost to Medicaid/Medicare

The applicant projects the cost to third party payors will remain the same as shown in the table below:

RCG of Newton, Inc. d/b/a RCG of Newton			
Payor	Utilization Percentage	First Year Revenue	RCG of Newton First Year Revenue
Medicaid	0.00%	\$0.00	\$ 7,098.00
Medicare *	63.00%	\$3,202,633.98	\$ 3,221,674.00
Self Pay	0.00%	\$0.00	\$ 12,028.00
Commercial *	32.00%	\$1,626,734.72	\$ 1,624,780.00
Charity	0.00%	\$0.00	\$ -
Other *	4.00%	\$203,341.84	\$ 217,966.00
Total	100%	\$5,083,546.00	\$ 5,083,546.00

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided an opportunity to review and comment on this project; however, the Division of Medicaid has not provided a comment on the proposed project as of the date of this staff analysis.

VI. CONCLUSION AND RECOMMENDATION

This project continues to be in substantial compliance with the overall objectives of the *FY 2015 Mississippi State Health Plan; Certificate of Need Review Manual, Revision 2011*; and all adopted rules, procedures, and plans of the Mississippi State Department of Health in effect at the time of approval.

Therefore, the Division of Health Planning and Resource Development recommends approval of the application submitted by RCG of Newton, Inc. d/b/a RCG of Newton for a cost overrun to CON No. R-0880. The cost overrun project will allow RCG of Newton, Inc. to increase the authorized capital expenditure from \$3,360,597.60 to \$3,797,630.60 by \$167,033.10 for the Relocation of an ESRD Facility within One Mile and Allowed Expansion of Stations.