

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

**CON REVIEW ESRD-NIS-1106-033
DVA HEALTHCARE RENAL CARE, INC.
D/B/A OCEAN SPRINGS DIALYSIS
RELOCATION/RE-ESTABLISHMENT OF 16-STATION ESRD FACILITY
WITHIN JACKSON COUNTY
CAPITAL EXPENDITURE: \$1,327,763
LOCATION: OCEAN SPRINGS, JACKSON COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

DVA Healthcare Renal Care, Inc. is a Louisiana corporation authorized to do business in the state of Mississippi. The entity has one director and 12 corporate officers. The applicant was awarded an Emergency CON on October 6, 2006, with an expiration date of January 6, 2007, to replace the Ocean Springs Dialysis facility that was destroyed as a result of Hurricane Katrina on August 29, 2005.

B. Project Description

DVA Healthcare Renal Care, Inc. d/b/a Ocean Springs Dialysis, requests Certificate of Need (CON) authority to re-establish/relocate the former Ocean Springs Dialysis end stage renal disease (ESRD) facility in Ocean Springs, Jackson County, Mississippi. The facility, formerly located at 12 Marks Road, will be relocated to 13150 Ponce De Leon, Ocean Springs, Mississippi. The proposed location is approximately 4.3 miles from the original location, within Ocean Springs.

The applicant states that the final objective of the proposed project is to continue to provide hemodialysis and peritoneal dialysis to patients in the Ocean Springs area by relocating and re-establishing the former Ocean Springs Dialysis (OSD) ESRD facility in Ocean Springs, Jackson County, Mississippi. The relocation of the Ocean Springs ESRD facility, which was destroyed by Hurricane Katrina in August 2005, according to the applicant, will restore much needed community access for those OSD patients who are now being treated at DVA facilities in Lucedale and Pascagoula, but live closer to the proposed Ocean Springs location.

The new facility will consist of 16 stations in 6,400 square feet of space at an estimated cost of \$129.69 per square feet. The facility will open with 14 stations initially and will later expand to its full capacity of 16 stations. The applicant states that the capital expenditure of \$1,327,763 was obligated on November 1, 2006.

The project will require 16.6 full-time equivalent personnel at an estimated cost of \$692,270.

The proposed site for the project has been zoned for use for medical offices, and has been approved by the MDH Division of Health Facilities Licensure and Certification.

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 Ocean Springs, Jackson County, to replace its facility that was destroyed by Hurricane Katrina in August 2005. In 2005, the applicant operated two facilities in Jackson County – Pascagoula Dialysis and Ocean Springs Dialysis. There were no other providers of ESRD services in Jackson County; however, Bio-Medical Applications of Mississippi, Inc. operates four facilities in Harrison County that are within a 30 mile radius of the proposed facility. These facilities and their approximate distance from the proposed facility are as follows:

Facility	County	Distance
South Mississippi Center, Biloxi	Harrison	14.54 miles
South MS Kidney Center Orange Grove	Harrison	24.37 miles
South MS Kidney Center-N. Gulfport	Harrison	25.65 miles
South MS Kidney Center of Gulfport	Harrison	28.96 miles

Source: Map Quest

Although the Ocean Springs Dialysis facility has not offered ESRD services within the past 12 months, it is not considered a new facility in the service area. The former OSD 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 the long range objective of the project is to continue to provide hemodialysis and peritoneal dialysis to its patients in the Ocean Springs area. The former facility was destroyed by Hurricane Katrina in 2005.

GR Criterion 3 - Availability of Alternatives

The applicant submits that after Hurricane Katrina, DVA attempted to re-open a clinic in the same general area as the destroyed clinic as soon as possible; however, obtaining suitable location for the facility posed great difficulty because obtaining a reasonably priced existing building was almost impossible. Since they were unable to secure an undamaged existing building with enough square footage in the area, they were forced to construct a new building for the facility. DVA states that it found and considered several locations: (1) A Washington Avenue location North of I-10, which was determined to be too far out of the area; (2) A Washington Avenue and Lemoyne Street location were considered; however, the lot was oversized and above what the parties wanted to spend; (3) A Groveland and Deena Road location which was sized fine but the property was zoned residential. The site selected was adequately sized, location was acceptable, the zoning was appropriate, and the cost was within DVA's and its landlord's budget.

GR Criterion 4 - Economic Viability

The project appears to be economically viable. The applicant projects net operating income of \$1,160,666 the first year, \$1,328,834 the second year, and \$1,418,491 the third year.

The charge per dialysis patient is projected to be \$324 the first year and second years, and \$326 the third year of operation of this project. See Attachment 1.

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

GR Criterion 5 - Need

The applicant indicates that all residents of the area have or will have access to the facility, including the poor, handicapped, women, elderly and members of racial or ethnic minorities.

The application involves the re-establishment of Ocean Springs Dialysis that was destroyed during Hurricane Katrina in August 2005. Due to the extent of the damage to the facility, DVA determined that it had no choice but to relocate the clinic to another building in the same community in order to continue to serve its patients. The applicant states that initially, approximately 58 patients went to the Singing River facility after the storm. Many of these patients had to drive an additional 30 minutes to get to the new facility. Due to overcrowding at the Singing River facility, applicant states that DVA transferred 15 patients to its Lucedale facility. These patients had an additional drive of approximately 1 ½ hours, as opposed to a 30 minute drive. The applicant states that since Katrina, the Singing River facility is now serving 115 to 120 patients. It estimates that if the CON is approved, 40-45 of these patients will be able to go back to the Ocean Springs facility when it reopens.

DVA projects that with the return of all of its former patients to the Ocean Springs Dialysis facility, and with anticipated increases in incidence rates for ESRD patients in the proposed primary service area, these factors will translate into a slight increase in ESRD patients for the Ocean Springs Dialysis facility.

As stated previously, there are five other ESRD facilities located within a 30-mile radius of the proposed facility, (includes a facility operated by the applicant). However, because the Ocean Springs Dialysis facility co-existed with these five facilities prior to Hurricane Katrina, staff contends that the reestablishment of the Ocean Springs facility should not have an adverse affect on existing providers. Forty to forty-five patients once served by the Ocean Springs facility, now being served by the Singing River Dialysis facility, are expected to return to Ocean Springs after this facility reopens.

The application contained six letters of support for the project and approximately 28 affidavits of patients stating their intent to return to the Ocean Springs Dialysis facility once it reopens.

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 projects that 1% of gross patient revenue will be provided to medically indigent patients for the first two years of operation.

As stated earlier, the application is for the replacement of Ocean Springs Dialysis facility which was destroyed during Hurricane Katrina. Reestablishment of this facility will make ESRD services more convenient for its patients located in this area.

The applicant estimates that approximately 87% of its patients have Medicare primary coverage.

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 proposed service will meet the needs of current DVA Ocean Springs Dialysis patients. It does not anticipate that there will be an adverse impact on existing providers of ESRD services, particularly since most of the patients to be served by this proposal are already DVA patients. The applicant expects that the location of ESRD services in Ocean Springs will be more convenient for both patients and health facilities in the Ocean Springs area.

GR Criterion 9 - Availability of Resources

DVA plans to recruit any additional Registered Nurses from area colleges and universities; Licensed Practical Nurses will be recruited from local community colleges; Social Workers, Dietician services and Dialysis Technicians will be recruited locally. DVA further plans to recruit needed physicians from specialized physicians practicing in the area.

GR Criterion 10 – Relationship to Ancillary or Support Services

The applicant submits that there are several different ancillary costs to the facility such as supplies, etc., but there is only one charge to the patients' insurance. This amount is agreed upon between the insurance company and DVA.

GR Criterion 11 – Health Professional Training Programs

The applicant expects that there will be no negative effect on the delivery of health services on the clinical needs of health professional training programs in the area in which the services are to be provided.

GR Criterion 12 – Access by Health Professional Schools

The applicant states that Oceans Springs Dialysis plans to hold its facilities open for student tours, lectures, training, and clinical placement opportunities for fellows, residents and other allied health professionals.

GR Criterion 16 - Quality of Care

The applicant submits that with a 20-year history of providing high quality dialysis services to the residents of Ocean Springs, DVA is in compliance with this criterion. The applicant expects that the quality of care will remain the same but with a new facility the patients will benefit from all new equipment.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

Cost Item	Projected Cost	% of Total
Construction Cost – New	\$ 700,000	53.0%
Renovation	0	0.0%
Capital Improvements	0	0.0%
Total Fixed Equip Cost	0	0.0%
Total Non-Fixed Equip Cost	497,763	37.0%
Land Cost	0	0.0%
Site Prep Cost	0	0.0%
Fees	130,000	10.0%
Contingency Reserve	0	0.0%
Capitalized Interest	0	0.0%
Other Cost – Testing Services	0	0.0%
Total Proposed Expenditures	\$ 1,327,763	100.0%

The above capital expenditure is for leasehold improvements to approximately 6,400 square feet of leased spaced to accommodate 16 ESRD stations, and associated equipment (14 stations, initially) and fees. The cost is estimated to be \$129.69 per square foot. The *Means Construction 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 on hand. The building will be leased for a 10-year term, at an annual cost of \$126,933.

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.

IV. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with overall objectives contained in the *FY 2006 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 Planning and Resource Development staff recommends approval of the application submitted by DVA Ocean Springs Dialysis for the reestablishment/relocation of 16 ESRD stations within Jackson County.

**Attachment 1
 Ocean Springs Dialysis
 Three-year Projected Operating Statement
 16-Station ESRD Facility**

Item	Year 1	Year 2	Year 3
Revenue			
Outpatient Care Revenue	\$4,059,753	\$4,400,718	\$4,767,714
Deduction from Revenue (Charity Care)	(40,196)	(43,572)	(47,205)
Net Patient Revenue	\$4,019,557	\$4,357,146	\$4,720,509
Expenses			
Salaries	\$ 725,264	\$ 794,928	\$ 861,156
Benefits	181,316	198,732	215,289
Supplies	1,008,040	1,114,556	1,231,655
Services	62,800	62,800	62,800
Lease	126,933	112,064	115,426
Depreciation	3,429	6,960	10,597
Interest			
Other	751,109	738,272	805,095
Total Expenses	\$2,858,891	\$3,028,312	\$3,302,018
Net Operating Income	\$1,160,666	\$1,328,834	\$1,418,491
Utilization Statistics			
Chronic Patients	62	66	71
Chronic Treatments	9,213	9,806	10,479
Utilization Rate	62%	65%	70%
Home Patients	22	25	28
Home Treatments	3,306	3,765	4,223
Total Treatments	12,519	13,571	14,702
Cost per Treatment	\$228.36	\$223.15	\$224.60
Charge per Treatment	\$324.29	\$324.27	\$325.65