

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
NOVEMBER 2008**

**CON REVIEW ESRD-NIS-0808-028
ALCORN REHAB SERVICES, INC. d/b/a ALCORN DIALYSIS, CORINTH
ESTABLISHMENT OF A 10-STATION ESRD FACILITY
CAPITAL EXPENDITURE: \$987,331
LOCATION: CORINTH, ALCORN COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Alcorn Rehab Services Inc. operates as a Mississippi Subsection S corporation which enjoys good standing with the Office of the Mississippi Secretary of State. Alcorn Rehab Services presently provides physical therapy services to patients in their homes as an outpatient rehabilitation service.

B. Project Description

Alcorn Rehab Services, Inc. proposes to relocate and expand its present outpatient physical therapy service to include a ten-station end stage renal disease (ESRD) facility in Corinth, Alcorn County. The new facility will also house a wellness center which will encourage proper dieting and exercise for healthy living by patients. The new dialysis service will be known as Alcorn Dialysis. Since neither the physical therapy outpatient service nor wellness center requires Certificate of Need review, the applicant will be referred to as "Alcorn Dialysis" or "Applicant" in this staff analysis.

The dialysis portion of the proposed new facility will contain 5,533 square feet of new construction at a total cost of \$987,331. The Mississippi State Department of Health, Division of Health Facilities Licensure and Certification, found the site acceptable for the stated use. The applicant proposes to employ 17 full-time equivalent employees at a total personnel cost of \$377,000 during the first year of operation.

The applicant expects to obligate capital expenditure and start construction within 30 days after final approval by the State Health Officer, and to complete within 12 months.

II. TYPE OF REVIEW REQUIRED

This project for the establishment of an end stage renal disease facility is reviewed in accordance with Section 41-7-191, subparagraph (1)(a), 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 December 4, 2008.

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

A. State Health Plan (SHP)

The FY 2009 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.

SHP Criterion 1 - Need

An applicant proposing the establishment of a limited care renal dialysis facility 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.

An ESRD Facility Service Area is defined as the area within 30 highway miles from an existing or proposed ESRD facility. Currently, there is only one provider within the proposed facility's service area: Renal Care Group of Corinth dba Fresenius Medical Care Corinth (FMC-Corinth).

The applicant proposes to establish a second facility in Corinth, Alcorn County, Mississippi, comprised of ten (10) ESRD stations. The applicant believes that these stations will facilitate patient needs, patient access, and the population growth of Alcorn County. Given the number of active dialysis patients reported by FMC Corinth for the past three years and the average number of stations, staff calculates the utilization rate of the facility to be as follows:

RCG Corinth d/b/a/ FMC Corinth Utilization Fiscal Year 2005-2007					
Fiscal Year	Average Number Stations	Average Number Patients	Average Number Shifts/Days	Number Treatments	Percentage Utilization
2005	21	74	2 Shifts/6days	10,769	55
2006	21	78	2 Shifts/6days	11,721	60
2007	21	86	2.4 Shifts/6days	12,812	65

***Note:** Total treatments were calculated based on 3 treatments per patient per week, 156 treatments per year (3 x 52 weeks) and 936 dialyses per station for maximum utilization..

Source: Annual End Stage Renal Dialysis Utilization Survey Form, Corinth Renal Care Group dba Fresenius Medical Care Corinth.

The applicant bases the need for additional renal dialysis capacity in Alcorn County on the assumption that FMC-Corinth operated only 19 stations at 88 percent capacity during the previous year. However, FMC-Corinth's utilization data show that FMC-Corinth, although licensed for 23 dialysis stations, operated 21 such stations at 65 percent of

maximum capacity during FY 2007. If FMC-Corinth were to operate all 23 licensed stations, the utilization rate for that facility would have been 60 percent of maximum utilization. Further, ESRD Network 8 reported the incidence and prevalence of end-stage renal disease in Alcorn County as:

End-State Renal Disease Incidence and Prevalence Alcorn County, Mississippi		
Year	Incidence	Prevalence
2005	20	40
2006	15	42
2007	18	43
To Date	10	45

Source: ESRD Network 8, September 16, 2008

The applicant failed to demonstrate need for additional renal dialysis stations in Alcorn County as required by the *FY 2009 State Health Plan*.

SHP Criterion 2 - Number of Stations

The *FY 2009 State Health Plan* establishes a minimum of four ESRD stations that may be approved for establishment of an ESRD facility. The applicant proposes to establish 10 ESRD stations. The applicant is in compliance with this criterion.

SHP Criterion 3 - Minimum Utilization

The applicant projects to perform 5,460 treatments on 35 patients the first year of operation for an annual utilization of 58 percent. The table below gives a comparison of the applicant's projections with the MSDH requirements.

Projected Utilization Alcorn Dialysis							
Year	Patients	Treatments per Station	Stations	Alcorn Dialysis Projections		MSDH Requirements	
				Treatments	Utilization Rate	Treatments	Utilization Rate
1	35	546	10	5,460	58%	4,680	50%
2	40	624	10	6,240	66%	6,084	65%
3	46	718	10	7,176	77%	7,020	75%

Since FMC -Corinth reported serving 86 patients in 2007 and Network 8 reported a prevalence of 45 ESRD patients in Alcorn County as of September 16, 2008, the applicant's ability to recruit 35 ESRD patients during the first year of operation is doubtful.

SHP Criterion 4 - Minimum Services

The applicant affirmed that, at a minimum, Alcorn Dialysis will provide social, dietetic, and rehabilitative services in the same facility and will not have to be contracted on a referral basis.

SHP Criterion 5 - Access to Needed Services

Alcorn Dialysis affirmed that it will provide reasonable access to equipment and facilities for such needs as vascular access and transfusions required by stable maintenance ESRD patients.

SHP Criterion 6 - Hours of Operation

The applicant proposes that the normal facility hours of operation will be from 6:30 a.m. to 6:00 p.m., Monday thru Saturday. Alternate arrangements will be made for those patients needing after-hours treatments.

SHP Criterion 7 - Home Training Program

The applicant affirmed that a home training program will be made available.

SHP Criterion 8 - Indigent/Charity Care

The applicant certified that the proposed facility will not have any admission policies which will adversely affect access to care by indigents, and that it will provide a reasonable amount of indigent/charity care. The applicant anticipates its percentage of indigent/charity care to be two percent.

SHP Criterion 9 - Facility Staffing

According to the applicant, the facility's medical director will be Dr. Gregory J. Hale, nephrologist. A registered nurse will operate as CEO and also be responsible for nursing services. A social worker, a dietitian, and a technician will also be employed. The application includes documentation for qualifications and specific duties of the proposed facility's staff.

SHP Criterion 10 - Staffing Qualifications

Alcorn Dialysis asserts that its staff will meet, at a minimum, all requirements and qualifications as stated in the Medicare Conditions for Coverage of Suppliers of ESRD Services, 42 CFR, Chapter IV, Subpart U.

SHP Criterion 11 - Staffing Time

Alcorn Dialysis affirmed that when the unit is in operation, at least one (1) registered nurse will be on duty. There will be a minimum of two persons for each dialysis shift, one of which will be an RN.

The applicant affirmed that a medical director or a designated physician will be on-site or on-call at all times when the facility is in operation. When the unit is not in operation, the medical director or a designated physician and a registered nurse will be on call.

SHP Criterion 12 - Data Collection

Alcorn Dialysis affirmed that it will record and maintain all utilization data and data regarding services provided to indigent patients and shall make such information available to the MSDH as required.

SHP Criterion 13 - Staff Training

The applicant affirmed that it will provide an ongoing program of training for nurses and technicians in dialysis techniques.

SHP Criterion 14 - Scope of Privileges

The applicant affirmed that it shall provide access to doctors of medicine or osteopathic medicine licensed by the State of Mississippi who possess qualifications established by the governing body of the facility.

SHP Criterion 15 - Affiliation with a Renal Transplant Center

The applicant affirmed that it will enter into an affiliation agreement with at least one transplantation center upon CON approval in accordance with stated requirements. The applicant also affirmed its understanding and agreement that failure to comply with this criterion may, after due process, result in revocation of the CON.

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 not in compliance with the need criterion stated in the FY 2009 *State Health Plan*. It is a policy of the Mississippi State Department of Health that no CON shall be issued unless it substantially complies with the projection of need as reported in the *State Health Plan* which is in effect at the time the application is received by the Department. The applicant seeks Certificate of Need authority to establish a 10-station ESRD facility in Alcorn County, Mississippi. The FY 2009 State Health Plan, the Plan in effect for review of this application, requires that before a CON application can be approved for expansion of renal dialysis capacity in an ESRD Facility Service Area, each individual existing ESRD facility in that service area must have maintained a minimum annual utilization rate of 80 percent. FMC-Corinth's use rate is 65 percent.

GR Criterion 2 - Long Range Plan

The applicant indicates that Alcorn Rehab, Inc. plans to continue to provide excellence in patient satisfaction without sacrificing services or quality of care. By combining a dialysis facility, a wellness center, and a rehab facility in one building, with one receptionist and one waiting room, the cost of providing care is contained while offering more services to the patient.

GR Criterion 3 - Availability of Alternatives

Alcorn Dialysis submits that there is no less costly or more effective available alternative to the application. No other alternatives were presented in the application.

GR Criterion 4 - Economic Viability

Based on the applicant's three-year projections, this project will realize a net income of \$325,222 the first year, \$368,771 the second year, and \$447,319 the third year of operation, respectively. Notwithstanding the projected positive income, staff contends that the project cannot be viable without adversely impacting on the viability of an existing provider.

- a. **Proposed Charge:** The applicant projects charges of \$322 per dialysis treatment for the first three years of operation for the proposed project. The applicant projects cost of \$250 per dialysis treatment for the first three years of operation for the proposed project.
- b. **Projected Levels of Utilization:** Alcorn Dialysis makes the following projections of dialysis treatment to be performed during the first three years of operation: 5,460; 6,240 and 7,176 respectively.
- c. **Project's Financial Feasibility Study:** The capital expenditure for this project is \$987,331; therefore, a feasibility study is not required since the capital expenditure does not exceed \$2,000,000.

GR Criterion 5 - Need for the Project

- a. **Access by Population Served:** The applicant asserts that Alcorn Dialysis will not discriminate against or allow impartial access to treatment or accommodations regardless of race, creed, sex, national origin, religion, handicap, or ability to pay for care.
- b. **Relocation of Services:** This application does not involve the relocation of services that require CON review.
- c. **Probable Effect on Existing Facilities in the Area:** It is staff's opinion that the implementation of this project would have an adverse effect on the existing ESRD facility extant in Alcorn County. RCG-Corinth (now FMC-Corinth) received Mississippi State Department of Health approval to expand its facility from 19 to 23 ESRD stations on May 19, 2004. FMC-Corinth presently operates 21 of the 23 ESRD stations and during FY 2007 it operated at a 65 percent occupancy rate. The need for additional ESRD capacity in Alcorn County has not been adequately demonstrated.
- d. **Community Reaction:** The application contains several letters of support for the proposed project. The Department received one letter 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.

The following table shows the projected estimated gross patient revenues of health care provided to charity/medically indigent patients for years one and two for the proposed project:

Projected Year	Total Dollar Amount of Gross Patient Revenue
1	\$34,459 (2%)
2	\$39,381 (2%)

The proposed facility will be available Monday thru Saturday 6:30 AM to 6:00 PM.

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, the only provider of ESRD services in Alcorn County is Fresenius Medical Care-Corinth. Based on utilization data provided to the Department, the existing dialysis facility had a utilization rate of 65 percent for fiscal year 2007, which is far less than the 80 percent utilization rate required before an additional provider can be approved.

The Department received one letter of opposition concerning the proposed project.

GR Criterion 9 - Availability of Resources

The applicant affirms that it has successfully recruited, through advertising and word-of-mouth, and maintained the personnel necessary for the efficient operation of its current facility, and it will use the same approach for its second location.

GR Criterion 10 – Relationship to Ancillary or Support Services

Alcorn Dialysis submits that it currently has all necessary support and ancillary services for its facility and does not anticipate any problems with the addition of ten ESRD stations.

GR Criterion 11 – Health Professional Training Programs

According to the applicant, Alcorn Dialysis will cooperate with health professional training programs in the area.

GR Criterion 16 - Quality of Care

The applicant submits that the quality of care offered to Alcorn Rehab, Inc. patients has exceeded patient and physician expectations as a result of organization and leadership. Alcorn Dialysis will offer a familiar alternative to current patients and provide increased accessibility of Alcorn County's residents.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

Alcorn Dialysis Capital Expenditure Summary		
SITE	Projected Cost	Percent of Total
1. Land Cost	\$ -	
2. Site preparation and/or improvement	75,000	
3. Other		
SUBTOTAL	\$ 75,000	7.60
Building		
1. New Construction	749,443	
2. Renovation		
3. Capital improvement		
4. Fees (architectural, consultant, etc.)	56,850	
5. Contingency reserve		
6. Capitalized interest		
7. Other		
SUBTOTAL	\$ 806,293	81.66
EQUIPMENT		
1. Fixed equipment		
2. Non-fixed equipment	97,000	
SUBTOTAL	\$ 97,000	9.82
PROJECT DEVELOPMENT		
1. Legal and accounting fees	4,500	
2. Other	4,538	
SUBTOTAL	\$ 9,038	0.92
TOTAL PROJECT COST	\$ 987,331	100.00

B. Method of Financing

The applicant proposes to finance this project through a commercial loan through a local bank.

C. Effect on Operating Cost

Alcorn Dialysis projects the following expenses, revenues, and utilization for the first three years of operation:

Alcorn Dialysis Three-Year Operating Statement			
	Year 1	Year 2	Year 3
Revenue			
Patient Revenue:			
Inpatient	\$ 1,722,956.00	\$ 1,969,091.00	\$ 2,264,456.00
Outpatient		-	
Total Gross Patient Revenue	\$ 1,722,956.00	\$ 1,969,091.00	\$ 2,264,456.00
Charity Care	\$ 34,459.00	\$ 39,381.00	\$ 45,289.00
Deductions	-0-	-0-	-0-
Net Patient Revenue	\$ 1,688,497.00	\$ 1,929,710.00	\$ 2,219,167.00
Other Operating Revenue	-0-	-0-	-0-
Total Operating Revenue	\$ 1,688,497.00	\$ 1,929,710.00	\$ 2,219,167.00
Expenses			
Salaries	\$ 290,000.00	\$ 354,437.00	\$ 407,602.00
Benefits	\$ 87,000.00	\$ 106,331.00	\$ 122,280.00
Services	\$ 210,974.00	\$ 236,291.00	\$ 271,735.00
Supplies	\$ 516,887.00	\$ 590,728.00	\$ 679,337.00
Lease	\$ 96,827.00	\$ 96,827.00	\$ 96,827.00
Depreciation	\$ 58,200.00	\$ 58,200.00	\$ 58,200.00
Other	\$ 103,387.00	\$ 118,125.00	\$ 135,867.00
Total Expenses	\$ 1,363,275.00	\$ 1,560,939.00	\$ 1,771,848.00
Net Income (Loss)	\$ 325,222.00	\$ 368,771.00	\$ 447,319.00
Utilization Rate (percent)	58	66	77
Total treatments	5,460	6,240	7,176
Patients	25	40	46
Charge Per Treatments	\$ 315.56	\$ 315.56	\$ 315.56
Cost Per Treatment	\$ 250.00	\$ 250.00	\$ 247.00

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.

Patient Mix by Payor	Utilization Percentage	First Year Expense
Medicare	88	\$ 1,516,203
Medicaid	4	\$ 68,918
Commercial	5	\$ 86,147
Self Pay	1	\$ 17,229
Charity	2	\$ 34,459
Total	100	\$ 1,722,956

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for review and comment. However, no comments were received.

VI. CONCLUSION AND RECOMMENDATION

This project is not in substantial compliance with criteria and standards for establishment of end stage renal disease facilities, as contained in the *FY 2009 State Health Plan*; the *Mississippi Certificate of Need Review Manual, revised February 2008*; and all adopted rules, procedures, and plans of the Mississippi State Department of Health. Specifically, the project does not comply with SHP Criterion 1 and GR Criterion 5 – Need. Policy Statement 5 of the *FY 2009 State Health Plan* states: “A CON application for the establishment of an ESRD facility shall be considered for approval only when each individual facility within an applicant’s proposed ESRD Facility Service Area has maintained, at a minimum, an annual or prorated utilization rate of 80 percent as verified by the MSDH. The 12 months prior to the month of submission of the CON application shall be used to determine utilization.” Staff found that there is only one ESRD facility within 30 highway miles of the proposed facility. That facility had a utilization rate of 55 percent for 2005, 60 percent for 2006, and 65 percent for 2007, less than the required 80 percent. Given the low utilization rate of the existing provider, staff questions the viability of the applicant’s proposal and contends that the proposal, if approved, will be an unnecessary duplication of a health service.

Consequently, the Division of Health Planning and Resource Development recommends disapproval of the application submitted by Alcorn Rehab, Inc. d/b/a Alcorn Dialysis for the establishment of a 10-station ESRD facility in Corinth, Alcorn County, Mississippi.