

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
NOVEMBER 2015**

**CON REVIEW NUMBER: HG-CO-0915-020
CLARKSDALE, HMA LLC D/B/A MERIT HEALTH NORTHWEST
F/K/A NORTHWEST MISSISSIPPI REGIONAL CENTER
COSTOVERRUN TO CON #R-0852 (CON REVIEW NUMBER: HG-FE-0312-006)
ACQUISITION OR OTHERWISE CONTROL OF MRI EQUIPMENT AND
CONVERSION OF MOBILE MRI SERVICES TO FIXED SERVICES
APPROVED CAPITAL EXPENDITURE: \$387,500
ADDITIONAL CAPITAL EXPENDITURE: \$292,427.24
TOTAL CAPITAL EXPENDITURE: \$679,927.24
LOCATION: CLARKSDALE, COAHOMA COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Clarksdale, HMA LLC d/b/a Merit Health Northwest f/k/a Northwest Mississippi Regional Center is a 195-bed, short term general acute care facility, located in Clarksdale, Mississippi, Clarksdale HMA, LLC is a limited liability company formed September 25, 2008. The applicant states that since the original CON approval, Community Health Systems, Inc., Franklin, Tennessee is now the parent company for Merit Health Northwest f/k/a Northwest Mississippi Regional Center. Joel Southern is now CEO and Charles Hester is now interim CFO. The hospital is governed by a 13-member Board of Trustees.

The Hospital is licensed for 181 general acute care beds and 14 rehabilitation beds.

The Department approved on November 26, 2013 a Change of Ownership for Clarksdale HMA, LLC d/b/a Northwest Mississippi Regional Medical Center. The Merger Agreement shows that Community Health Systems, Inc. (CHS) will acquire HMA and through totally held subsidiaries, CHS will have ultimate control of the facility and that the current operator of the facility will not change.

B. Project Background

Clarksdale HMA, LLC d/b/a Northwest Mississippi Regional Medical Center (NWMRMC) requested Certificate of Need (CON) for the acquisition or otherwise control of magnetic resonance imaging (MRI) equipment and the conversion of mobile MRI services to fixed MRI services. NWMRMC is authorized to provide mobile MRI services.

The applicant states that currently, Imaging Resources Group, LLC, of Hot Springs, Arkansas is the current mobile MRI vendor for NWMRMC's mobile MRI services. The mobile unit provides MRI services at NWMRMC Monday through Friday for 45 hours per week. The applicant asserts that it is unaware of Imaging Resources Group's plans for the mobile equipment after termination of the

hospital's contract. The applicant submits that the hospital's current mobile MRI vendor's (Imaging Resources Group, LLC) contract will be terminated upon CON approval of the proposed project.

The applicant asserts that the scope of the original proposed project involves the applicant proposes to lease a 1.5 Telsa MAGNETOM Espree magnet from Siemens Medical Solutions USA, Inc. The application contains a preliminary lease proposal between the applicant and Siemens Medical Solutions USA, Inc. concerning the proposed project. The applicant states that the placement of the proposed fixed MRI unit and support space in the hospital will require 705 square feet of renovation in the existing radiology department. In addition, to the MRI room, support spaces will include a control room, equipment room and storage room. Building systems will include gypsum board and metal stud walls, flooring, ceilings, doors, cabinets, HVAC and electrical system. Specialties will include a combination of radio frequency and magnetic shielding with specialty walls, doors and interior windows. The applicant indicates that the MRI shielding originally estimated the amount as \$185,000; however, the actual bid came in much lower (\$39,100).

The capital expenditure for the proposed project is \$387,500 which includes renovation - 47.74 percent; fee – 4.5 percent (architectural, consultant, etc); MRI shielding – 47.74 percent (See capital expenditure summary, page 11). The applicant's parent company, Clarksdale HMA, LLC intends to finance the proposed capital expenditure of \$387,500 for the proposed project.

On February 27, 2012 the Division of Health Facilities Licensure and Certification, MSDH inspected the site at 1970 Hospital Drive, Clarksdale, Mississippi and found the site acceptable, as a result, granted site approval.

Clarksdale HMA, LLC, d/b/a Northwest Mississippi Regional Medical Center was granted Certificate of Need (CON) Number R-0852 for the acquisition or otherwise control of magnetic resonance imaging (MRI) equipment and conversion of mobile MRI services to fixed services. The effective date of the CON was June 28, 2012, with an expiration date of June 28, 2013. The applicant has complied with the Department's guidelines for six-month extensions and progress reports for a granted Certificate of Need.

C. Project Description

Clarksdale, HMA LLC d/b/a Merit Health Northwest f/k/a Northwest Mississippi Regional Center now request Certificate of Need authority for a cost overrun to its CON No.R-0852. According to the applicant, the capital expenditure approved in the original CON is \$387,500 and the additional costs for this cost overrun proposal are \$292,427.24, resulting in a revised total capital expenditure of \$679,927.24 for the project.

The applicant asserts that Clarksdale, HMA LLC d/b/a Merit Health Northwest f/k/a Northwest Mississippi Regional Center received CONs for the conversion of mobile MRI service to a fixed service (CON #0852) and a separate but related CON for renovation/expansion of radiology department (CON #0853). These two

projects were approved on the same day (June 28, 2012). Since the issuance of the CON for the MRI project and six month extension filings, the applicant states the project was delayed because Northwest Mississippi Regional Center was acquired by Community Health Systems, Inc. (CHS). With the sale of the hospital to CHS, there have been transitions and changes made in the administration, which resulted in several people involved in implementing these two projects (CONs for the conversion of mobile MRI service to fixed (CON #0852) and its renovation/expansion of radiology department (CON #0853).

Additional, the applicant asserts that the purchase of Northwest Mississippi Regional Medical Center occurred subsequent to the applications for CONs. Therefore, CHS personnel did not have the benefit of being involved in planning the projects offered by CON #0852 and #0853 or preparing the financial projects or estimating costs related to either CON project. Therefore, the hospital and the new administration developed a plan that will best and most efficiently utilize these CONs (CON #0852 and CON #0853). The applicant's plan was to improve radiology services at the hospital and convert the mobile MRI to fixed by combing both CONs. With this overall goal in mind, Merit Health Northwest f/k/a Northwest Mississippi Regional Center combined the capital expenditures approved for both the MRI project and the radiology renovation to improved the provision of radiology services. As, a result, the applicant did not realize that despite its consolidation for both projects, that all costs related to the MRI project inadvertently exceeded the approved capital expenditure of \$387,500 by \$292,427 for CON #0852.

The applicant states that this overage was not planed but instead occurred as a result of a misunderstanding of the authority to expend capital. The applicant asserts that the Department authorized Merit Heath Northwest d/b/a NWMRMC to expend \$3,884,214 on the radiology department renovation (CON #0853). But, the applicant states that it did not realize that the expenses attributed for the MRI project were to be attributed to the radiology renovation not the MRI conversion. Although the referenced CONs were combined to more efficiently provide services, the applicant asserts that it viewed these two projects as a singular goal to improve radiology services at the hospital and was not acting with regard to two separate projects with separate expenses. Merit Health Northwest f/k/a Northwest Mississippi Regional Center now anticipates that because of the MRI project's expense overage the capital spent on the radiology renovation will be much less for CON #0853.

Clarksdale, HMA LLC d/b/a Merit Health Northwest f/k/a Northwest Mississippi Regional Center asserts that it was not discovered that an overage had occurred until the applicant was preparing to submit the final completion report for the MRI CON.

Clarksdale, HMA LLC d/b/a Merit Health Northwest f/k/a Northwest Mississippi Regional Center submits that although an overage did occur with regard to the MRI conversion, it is authorized to spend \$4,271,714 when both CON #0852 and CON #0853 are considered; and to date, Clarksdale, HMA LLC d/b/a Merit Health Northwest f/k/a Northwest Mississippi Regional has not exceeded that threshold. Currently, it has obligated \$679,927.24 in capital expenses related to

the MRI conversion, an overage of \$292,427.24 above the \$387,500 authorized for CON #852 for MRI conversion. The applicant states that Clarksdale, HMA LLC d/b/a Merit Health Northwest f/k/a Northwest Mississippi Regional Center does not anticipate making additional capital expenditures to complete the MRI conversion at the Hospital. Therefore, the applicant requests approval for the additional capital expenditure of \$292,427.24 related to MRI CON #0852.

The applicant asserts that the additional capital expenditure of \$292,427.24 in the proposed cost overrun project will be financed from the applicant's parent company, Clarksdale HMA, LLC. The applicant states that the project is approximately 100% complete.

Health Facilities Licensure and Certification, MSDH performed a final inspection and approved the service location and facility construction for the MRI project. The application contains an approval letter from Licensure and Certification dated March 16, 2015 for the MRI project.

According to the applicant, there will be no change in staffing as a result of the proposed cost overrun project.

Staff contends that this cost overrun does not change the scope of the original project.

The Mississippi State Department of Health, Division of Health Facilities Licensure and Certification approved the original site for the proposed project.

II. TYPE OF REVIEW REQUIRED

The original project was reviewed in accordance with Section 41-7-191, (1)(d) (xii), and (f) of the Mississippi Code of 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 amendments and cost overrun in accordance with duly adopted procedures 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 publication of the staff analysis. The opportunity to request a hearing expires on December 7, 2015.

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

A. State Health Plan (SHP)

The original application was in substantial compliance with the *FY 2012 Mississippi State Health Plan*, in effect at the time the original application was submitted. The cost overrun project continues to be in compliance with the *FY 2015 Mississippi State Health Plan*.

B. General Review (GR) Criteria

The original project was in substantial compliance with the *Certificate of Need Review Manual, FY 2011 Revision*, in effect at the time of submission. This application continues to be in compliance with applicable General Review Criteria and Standards contained in the *Certificate of Need Review Manual, 2011 Revision*.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

| | Original Approved Amount | Revised Amount | Increase/ (Decrease) |
|---|---|---------------------------|---------------------------------|
| 1. New Construction Cost | 0 | 0 | 0 |
| 2. Construction/Renovation | \$185,000 | \$214,946.96 | \$29,946.96 |
| 3. Land | | | |
| 4. Site Work | 0 | \$8,710 | \$8,710 |
| 5. Fixed Equipment | 0 | 0 | 0 |
| 6. Non-Fixed Equipment | 0 | \$91,910.49 | \$91,910.49 |
| 7. Contingency | 0 | 0 | 0 |
| 8. Fees (Architectural, Consultant, etc) | \$17,500 | \$55,136.54 | \$55,136.54 |
| 9. Capitalized Interest | 0 | 0 | 0 |
| 10. Other Costs (MRI shielding) | \$185,000 | *0 | (\$185,000) |
| 11. Other Costs (phone systems) | 0 | \$346.99 | \$346.99 |
| 12. Other (modular building) | 0 | \$308,876.26 | \$308,876.26 |
| Total Capital Expenditure | \$387,500 | \$679,927.24 | \$292,427.24 |

*The applicant asserts that the magnetic shielding is included in the costs of the modular building for the project.

As previously mentioned, the capital expenditure approved in the original CON is \$387,500. The applicant asserts that the additional cost for the cost overrun proposal is \$292,427.24, resulting in a revised capital expenditure of \$679,927.24 for the project.

The proposed cost overrun is discussed under *C. Project Description*. The applicant states that the proposed project is 100% complete. The proposed cost overrun does not change the scope of the original project.

B. Method of Financing

The applicant's parent company, Clarksdale HMA, LLC intends to finance the additional capital expenditure of \$292,427.24. The applicant asserts that the lease for the MRI unit is five (5) years with a total lease amount of \$1,147,941 and an interest rate of 6.70 percent for the project.

C. Effect on Operating Cost

Clarksdale HMA, LLC d/b/a Merit Health Northwest provided a revised projected operating statement for the first year of operation after completion of the project (see Attachment 1). Attachment 2 shows the original first-year projected operating statement of CON No.R-0852 (acquisition or otherwise control of MRI equipment and conversion of mobile MRI services to fixed services).

D. Cost to Medicaid/Medicare

The applicant states that the additional capital expenditure associated with the proposed cost overrun will not impact Medicare and Medicaid or other payors. The applicant asserts that with the improvement in care and services from the fixed MRI, these patients should receive a higher quality of service.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for review and comment. The Division of Medicaid states that as of September 1, 2012, the Division changed the methodology by which they reimburse outpatient services so that the cost incurred subsequent to that date will no longer affect outpatient payments.

The Division of Medicaid further states that effective October 1, 2012 the Division changed the methodology by which they reimburse inpatient services so that the cost incurred subsequent to that date will only affect outlier payments. The Division affirms that the estimated increase in cost outlier payments resulting from the proposed CON cannot be determined at this time. Therefore, the Division of Medicaid opposes the transaction of the proposed project.

VI. CONCLUSION AND RECOMMENDATION

The original application was in substantial compliance with the *FY 2012 Mississippi State Health Plan*, in effect at the time the original application was submitted; the *Mississippi Certificate of Need Review Manual, revised 2011*, and all adopted rules, procedures and plans of the Mississippi State Department of Health. The proposed cost overrun project continues to be in compliance with all applicable rules, procedures and plans in the *FY 2015 Mississippi State Health Plan* and the *Certificate of Need Review Manual, 2011 Revision*.

(11/15)
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Clarksdale HMA, LLC d/b/a Merit Health
Northwest f/k/a NWMRMC
Cost Overrun to CON #R-0852
(CON Review Number: HG-FE-0312-006)
Acquisition or Otherwise Control of MRI
Equipment and Conversion of Mobile MRI
Services to Fixed MRI Services
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The Division of Health Planning and Resource Development recommends approval of this application submitted by Clarksdale HMA, LLC d/b/a Merit Health Northwest f/k/a Northwest Mississippi Regional Medical Center for the cost overrun to its CON Number R-0852 for the acquisition or otherwise control of MRI equipment and the conversion of mobile MRI services to fixed services.

Attachment 1

**Clarksdale HMA, LLC d/b/a
 Merit Health Northwest f/k/a Northwest
 Mississippi Regional Medical Center**

First-Year Operating Statement (Revised)

| | Year I |
|---------------------------------|--------------------|
| Revenue | |
| Outpatient MRI Revenue | \$1,096,000 |
| Gross Outpatient Revenue | \$1,096,000 |
| Deductions (bad debt) | 32,880 |
| Net Patient Revenue | \$1,063,120 |
| Expenses | |
| Operating Expenses: | |
| Salaries | \$ 114,800 |
| Benefits | 22,960 |
| Supplies | 6,430 |
| Lease | 213,864 |
| Depreciation | 15,444 |
| Other | 109,843 |
| Total Expenses | \$483,341 |
| Net Income (Loss) | \$579,779 |
| Assumptions | |
| MRI procedures | 2,192 |
| Cost per procedure | \$2,800 |
| Charge per procedure | \$3,300 |

Attachment 2

**Clarksdale HMA, LLC d/b/a
 Merit Health Northwest f/k/a Northwest
 Mississippi Regional Medical Center**

First-Year Operating Statement (Original)

| | Year I |
|------------------------------|--------------------|
| Revenue | |
| Inpatient Care Revenue | \$0 |
| Outpatient Care Revenue | 2,813,073 |
| Gross Patient Revenue | \$2,813,073 |
| Deductions from Revenue | 1,726,664 |
| Other operating Revenue | 0 |
| Net Patient Revenue | \$803,735 |
| Expenses | |
| Operating Expenses: | |
| Salaries | \$ 0 |
| Benefits | 0 |
| Supplies | 6,430 |
| Services | 0 |
| Lease | 360,000 |
| Depreciation | 10,126 |
| Interest | 0 |
| Other | 0 |
| Total Expenses | \$376,556 |
| Net Income (Loss) | \$ 427,179 |
| Assumptions | |
| Number of Scans | 2,381 |
| Cost per Scan | \$ 158 |
| Charge per Scan | \$1,181 |