

**DIVISION OF HEALTH PLANNING
AND RESOURCE DEVELOPMENT
FEBRUARY 2014**

**CON REVIEW: HG-FE-1013-013
FORREST COUNTY GENERAL HOSPITAL
D/B/A HIGHLAND COMMUNITY HOSPITAL
ACQUISITION OF MRI EQUIPMENT AND CONVERSION FROM
MOBILE TO FIXED UNIT
CAPITAL EXPENDITURE: \$863,335.75
LOCATION: PICAYUNE, PEARL RIVER COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. APPLICANT INFORMATION

Forrest County General Hospital d/b/a Highland Community Hospital is a short-term, general acute care, public, not-for-profit hospital located in Picayune, Mississippi and owned by Forrest County General Hospital, Hattiesburg, Mississippi. The 95-bed Highland Community Hospital (“Highland”) opened a replacement facility on July 28, 2012, with 60 licensed acute care beds. The facility is governed by a seven-member Board of Trustees of Forrest General Hospital.

The occupancy rates, average lengths of stay (ALOS), and the Medicaid utilization rates for the three most recent fiscal years for Highland Community Hospital (medical/surgical beds only) are shown below:

Highland Community Hospital
Utilization Data

Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid Utilization Rate (%)
2010	20.35	2.80	24.66
2011	17.02	2.81	25.65
2012	26.99	2.93	25.63

Source: Division of Health Facilities Licensure and Certification

B. PROJECT DESCRIPTION

Forrest County General Hospital, d/b/a Highland Community Hospital requests Certificate of Need (CON) authority for the acquisition of a General Electric Optima MR360 1.5 Tesla MRI System (the “MRI Equipment”). The applicant admits that Highland purchased the MRI Equipment in 2012 based on the Department’s initial determination ruling that a CON was not required. Subsequently, the Department rescinded its initial ruling and determined that a CON was required because the purchase constituted the conversion of a mobile MRI unit to a fixed unit.

Based on the Department's CON records, Highland was approved to provide mobile MRI services in 1996 and was never approved for the conversion from mobile to fixed MRI service. Effective 2008, a CON is required for the conversion of mobile MRI to fixed MRI service.

The primary objective of the project is to provide the residents of Highland's service area with improved diagnostic imaging services through the utilization of a new MRI unit.

The applicant projects 16.2 additional FTE personnel the first year after completion of the project at an annual cost of \$1,185,387.68. Additional FTE personnel include 1.2 Clerical, 0.3 Coordinator, 0.7 Support, and 5.4 Other Patient Care. However, the applicant indicated that the additional staff are not required as a result of this project.

The Division of Health Facilities Licensure and Certification has approved the site for MRI service. The total proposed project cost is \$863,336, purchased from cash reserves.

II. TYPE OF REVIEW REQUIRED

The Mississippi State Department of Health reviews applications for the acquisition or control of major medical equipment, and services under the applicable statutory requirements of Section 41-7-191, subparagraph (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.

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 April 3, 2014.

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

A. State Health Plan (SHP)

The *FY 2013 State Health Plan* contains policy statements, criteria and standards which an applicant is required to meet before receiving Certificate of Need authority for the acquisition or otherwise control of MRI equipment and/or offering of MRI services and conversion of mobile MRI services to fixed services. This application is in substantial compliance with applicable criteria and standards.

The *FY 2013 State Health Plan* provides that the conversion from mobile MRI service to fixed MRI service is considered the establishment of a new MRI service and requires CON review.

SHP Policy Statement (PS) Regarding (MRI)

PS - 4 Conversion from Mobile MRI to Fixed MRI: This CON application is seeking authority for such conversion.

PS - 5 Utilization of Existing Units: Highland Community Hospital is located in General Hospital Service Area (GHSA) IX and is the sole MRI provider located in Pearl River County.

According to the *2013 State Health Plan*, there were 18.10 full time equivalent (FTE) MRI units in GHSA IX that performed 37,192 MRI procedures during Fiscal Year (FY) 2011. Therefore, the average number of MRI procedures performed in FY 2011 in GHSA IX was 2,054.81.

The applicant submits that there are no other existing and approved MRI scanners in Highland Community Hospital's defined service area.

PS – 6 Population-Based Formula: Highland Community Hospital is the only provider of MRI services in Pearl River County. According to the *2013 State Health Plan*, Pearl River County has a 2015 population projection of 64,135.

When applying the *2013 State Health Plan's Population-Based Formula for Projection of MRI Service Volume*, utilizing the *Mississippi Population Projections for 2015, 2020, and 2025, September 2008*, results indicate that the population of 64,135 can generate an excess of 5,000 MRI procedures. See Formula for results below.

Population-Based Formula for Projection of MRI Service Volume

$$X*Y \div 1,000=V$$

Where, X = Applicant's Defined Service area population

Y = Mississippi MRI Use Rate

V = Expected Volume

$$\frac{64,135 * 84}{1,000} = 5,387$$

Criteria and Standards for the Acquisition or Otherwise Control of MRI Equipment

SHP Criterion 1 – Need

An entity desiring to acquire or otherwise control the MRI equipment must demonstrate a minimum of 2,700 procedures per year by the end of the second year of operation, according to the *FY 2013 State Health Plan*. *Provided, however, that MRI equipment exclusively servicing rural hospitals (those located outside U.S. Census Bureau Metropolitan Statistical Areas with 75 beds or less) shall be required to demonstrate a*

minimum of 1,700 procedures per year by the end of the second year of operation.

Highland is a 60-bed short-term acute care hospital located in Pearl River County, which is outside of a U. S. Census Bureau Metropolitan Statistical Area and is therefore considered rural. Based on the methodology contained in the Plan, the applicant submits that Highland's population base supports 5,387 MRI procedures, which substantially exceeds the minimum annual volume of 1,700 MRI procedures per year requirement for rural hospitals (See calculation above).

According to the *2013 State Health Plan*, Highland Community Hospital performed a total of 1,084 MRI procedures in 2010 and 1,213 in 2011.

The applicant makes the following projections of MRI procedures to be performed during the first and second years of operation:

Year 1	Year 2
1,643	1,709

Highland submits that as the sole provider of MRI services in Pearl River County, it can reasonably expect to capture a significant percentage of the MRI procedures performed on residents of that County. Historically, Highland and its predecessor, Crosby Memorial Hospital, has not served a significant portion of the county residents in need of MRI services due to several factors: (1) the previous building was outdated and not well-suited to attract patients and their families; (2) there has been a shortage of physicians, particularly specialists, in Pearl River County; and (3) Highland's former MRI unit was 15 years old and did not have optimal diagnostic capabilities.

Highland submits that through ownership by Forrest County General Hospital, it has taken major steps to address these problems. First, Highland has constructed a new replacement facility which became operational in July 2012; Second, Highland has undertaken an aggressive program to recruit physicians and specialists to Pearl River County, in conjunction with Hattiesburg Clinic. Finally, Highland's new MRI Equipment offers enhanced diagnostic capabilities which will contribute to a greater acceptance by physicians in need of making an MRI referral. The hospital reported 1,243 MRI procedures for FY 2012 and estimates an excess of 1,500 for FY 2013.

The applicants submits that based on the above described activities undertaken by Highland, it is reasonable to project that Highland will easily achieve in excess of 1,700 MRI procedures within the next two (2) years.

SHP Criterion 2 – Quality Assurances

The applicant provided a copy of the proposed contract for the equipment.

In addition, the applicant certified that the MRI equipment is FDA approved, and that only qualified personnel will be allowed to operate the equipment.

Highland does not propose to lease the equipment to another party, or otherwise allow the equipment to be used by other providers on a contractual basis.

SHP Criterion 3 – Information Recording/Maintenance

The applicant affirms that, at a minimum, it will record and maintain the requirements listed in this criterion and make it available to the Mississippi State Department of Health within 15 business days of request.

SHP Criterion 4 – Registration

Forrest County General Hospital d/b/a Highland Community Hospital is a Mississippi community hospital licensed by the State Department of Health.

SHP Criterion 5 – CON Approval

By the submittal of FGH's application, the applicant requests CON approval for the conversion of the hospital's mobile MRI service to fixed MRI service and equipment.

Criteria and Standards for the Offering of Fixed or Mobile MRI Services

SHP Criterion 1 – Need

As previously stated, Highland is a current provider of mobile MRI services and seeks to provide fixed services. The applicant projects to perform 1,643, 1,709, and 1,772 procedures the first, second, and third year of operation, respectively. These projections meet and exceed the minimum requirement of 1,700 procedures required by the end of the second year of operation for rural hospitals.

SHP Criterion 2 - Documentation of Diagnostic Imaging Modalities

The applicant affirms that the hospital currently provides the services required of this criterion.

SHP Criterion 3 – Accessibility

The applicant submits that Highland does not have admission policies that exclude patients because race, color, age, sex, ethnicity, or ability to pay.

SHP Criterion 4 - Staffing

Highland submitted Curriculum Vitae of Louis E. Summersgill, MD, Richelle C. Legnon, MD, Dale M. MacCurdy, MD, Myles C. Digby, MD, Neel DeWan Gupta, M.D., Kishore V. Kamath, MD, and Jeff S. Redmond, M.D. as evidence of availability of a full-time, board eligible radiologist or nuclear medicine imaging physician, or other board eligible licensed physician to serve as Director.

The application indicates that Christopher L. Shell will serve as the MRI Technologist.

SHP Criterion 5 – Research Staffing

The applicant indicates that the fixed MRI unit will not be used for experimental procedures.

SHP Criterion 6 – Data Requirement

The applicant affirms that the data requirements listed for this criterion will be kept and made available to the Mississippi State Department of Health upon request.

SHP Criterion 7 – CON Approval

Highland requests CON approval for the acquisition of a fixed MRI unit.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual, 2011 revision*, addresses general criteria by which all CON applications are reviewed. This application is in substantial compliance with general review criteria contained in the Manual.

GR Criterion 1 – State Health Plan

The application was reviewed for compliance with the *FY 2013 State Health Plan* as previously discussed.

GR Criterion 2 – Long Range Plan

The applicant confirmed that the installation of a fixed MRI unit was a part of the long-range plan for the establishment of a replacement facility for Highland Community Hospital.

GR Criterion 3 – Availability of Alternatives

The applicant states that the only alternative considered was to purchase MRI equipment or discontinue MRI services. It further contends that purchase was necessary since the MRI in service at the old facility was 15 years old. Purchasing the equipment was more cost effective than continuing to lease the MRI unit from Alliance Imaging. In addition, the applicant states that the cost of leasing the MRI unit from Alliance Imaging was higher than the cost of self-operation.

GR Criterion 4 – Economic Viability

The three-year projected operating statement contained in the application (Project Only) indicates net income of \$413,972 the first year, \$439,844 the second year, and \$466,752 the third year of operation.

The applicant states that projected charges are based on Highland's financial experience and assessment. The projected level of utilization is based on analysis which includes expected volume increases due to the new hospital facility, additional physicians in the area, and other factors. The applicant projects 1,643, 1,709, and 1,777 procedures the first, second, and third year, respectively, at a charge of \$1,531 per procedure.

Highland states that should the proposed project fail to meet projected revenues, Forrest County General Hospital would be able to cover expenses with cash reserves.

GR Criterion 5 – Need for Project

The applicant submits that all residents of the area will have access to the proposed fixed MRI. As a Mississippi community hospital, Highland Community Hospital is accessible to all residents of the service area.

The applicant does not expect the project to impact other providers of MRI services since there are no other MRI providers in Pearl River County.

The application contained nine letters of support for the project. No letters of opposition were received by the Department.

GR Criterion 6 – Access to the Facility or Service

The applicant asserts that Highland is fully accessible to Medicare, Medicaid, and medically indigent patients and all health services offered by Highland Community Hospital are accessible to all residents of the service area.

The applicant submits that the actual and projected percentage of gross patient revenue (GPR) health care provided to charity care patients for the last two years are as follows for this project:

	Medically Indigent (%)	Charity Care (%)
2011		10
2012		9
Projected year 1		9
Projected year 2		8

According to the applicant, Highland Community Hospital is fully accessible to medically indigent patients.

GR Criterion 7 – Information Requirement

The applicant affirms that it will record and maintain the information required by this criterion and make it available to the Mississippi State Department of Health within 15 business days of proper request.

GR Criterion 8 – Relationship to Existing Health Care System

The applicant submits that the project enables Highland to serve the residents of its service area with cost effective, efficient and improved MRI services. Failure to implement the project would result in unnecessary costs and depriving the residents of the service area of access to improved MRI technology.

Staff concludes that this project should have no significant adverse affect on existing MRI providers in GHSA IX.

The Department has not received any letters of opposition for the proposed project

GR Criterion 9 - Availability of Resources

According to the applicant, Highland Community Hospital fully staffs all health services, including MRI services.

GR Criterion 10 – Relationship to Ancillary or Support Services

According to the applicant, Highland will provide any necessary support and ancillary services for the project. No material changes in costs or charges are projected as a result of this project.

GR Criterion 11- Health Professional Training Programs

According to the applicant, there will be no change to the health professional training programs.

GR Criterion 16– Quality of Care

Highland Community Hospital is in compliance with the *Minimum Standards for the Operation of Mississippi Hospitals*, according to the Division of Health Facilities Licensure and Certification, MSDH.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

The total estimated capital expenditure is allocated as follows:

	Item	Cost (\$)	Percent (%) of Total
a.	Construction Cost -- New	\$ 0	0
b.	Construction Cost -- Renovation	0	0
c.	Capital Improvements	0	0
d.	Total Fixed Equipment Cost	863,336	100
e.	Total Non-Fixed Equipment Cost	0	0
f.	Land Cost	0	0
g.	Site Preparation Cost	0	0
h.	Fees (Architectural, Consultant, etc.)	0	0
i.	Contingency Reserve	0	0
j.	Legal and accounting fees	0	0
k.	Other	<u>0</u>	<u>0</u>
	Total Proposed Capital Expenditure	<u>\$863,336</u>	<u>100.00</u>

B. Method of Financing

Forrest County General Hospital d/b/a Highland Community Hospital purchased the MRI equipment with cash reserves.

C. Effects on Operating Costs

The applicant's projections of gross revenues for the first, second, and third year of operation, expenses, and net income are shown in Attachment 1.

D. Cost to Medicaid/Medicare

The applicant projects the cost of the project to third party payors as follows:

Forrest County General Hospital d/b/a Highland Community Hospital		
Payor	Utilization Percentage	First Year Revenue
Medicaid	10.26%	\$ 257,916
Medicare	40.38%	\$ 1,015,402
Self Pay	1.29%	\$ 32,389
Commercial	44.25%	\$ 1,112,893
Charity Care	0%	\$ 0
Other	3.82%	<u>\$ 96,177</u>
Total	100.00%	<u>\$ 2,514,777</u>

Note: Utilization Percentages were calculated by staff, based on the dollar amount of revenue projected by the applicant for each payor. Calculations are not precise due to rounding.

V. RECOMMENDATION OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for review and comment. Effective September 1, 2012, the Division of Medicaid changed the methodology by which outpatient services are reimbursed so that the cost incurred subsequent to that date will no longer affect outpatient payments. Also, effective October 1, 2012, the Division changed the methodology by which it reimburses inpatient services so that the cost incurred subsequent to that date will only affect cost outlier payments. The Division states that the estimated increase in cost outlier payments resulting from this CON cannot be determined at this time. The Division of Medicaid opposes the project.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with the criteria and standards contained in the *2013 Mississippi State Health Plan for acquisition or otherwise control of MRI equipment and offering of fixed MRI services*; Chapter 8 of the *Mississippi Certificate of Need Review Manual, 2011 Revision*; and all adopted rules, procedures, and plans of the Mississippi State Department of Health.

Therefore, the Division of Health Planning and Resource Development recommends approval of this application submitted by Forrest County General Hospital d/b/a Highland Community Hospital, for the acquisition or otherwise control of MRI equipment and provision of fixed MRI services.

Attachment 1

**Forrest County General Hospital
 d/b/a Highland Community Hospital
 Acquisition or Otherwise Control of MRI Equipment
 Three-Year Projected Operating Statement (Project Only)**

	Year 1	Year 2	Year 3
Revenue			
Inpatient Care	\$ 260,794	\$ 271,226	\$ 282,075
Outpatient Care	2,253,983	2,344,142	2,437,908
Gross Patient Care Rev.	\$2,514,777	\$2,615,368	\$2,719,983
Charity Care	100,591	104,615	108,799
Deductions for Revenue	1,767,374	1,838,069	1,911,592
Net Patient Care Revenue	\$ 646,812	\$ 672,684	\$ 699,592
Total Operating Revenue	\$ 646,812	\$ 672,684	\$ 699,592
Operating Expenses			
Salaries	\$ 0	\$ 0	\$ 0
Benefits	0	0	0
Supplies	0	0	0
Services	0	0	0
Lease	0	0	0
Depreciation	123,334	123,334	123,334
Interest			
Other	109,506	109,506	109,506
Total Operating Expenses	\$ 232,840	\$ 232,840	\$ 232,840
Net Operating Income (Loss)	\$ 413,972	\$ 439,844	\$ 466,752
Inpatient Days	56	57	59
Outpatient Days	485	496	506
Procedures	1,643	1,709	1,777
Charge per outpatient day	\$ 4,647	\$ 4,726	\$ 4,818
Charge per inpatient day	\$ 4,657	\$ 4,758	\$ 4,781
Charge per procedure	\$ 1,531	\$ 1,531	\$ 1,531
Cost per inpatient day	\$ 4,158	\$ 4,085	\$ 3,946
Cost per outpatient day	\$ 480	\$ 469	\$ 460
Cost per procedure	\$ 142	\$ 136	\$ 131