

**Division of Health Planning  
And Resource Development  
May 2003**

**CON Review FS-NIS-0303-003  
South Central Regional Open MRI, LLC  
d/b/a South Central Regional Open MRI Imaging Center  
Establishment of Open MRI Services/Equipment  
Capital Expenditure: -0-  
Location: Laurel, Mississippi**

**STAFF ANALYSIS**

**I. PROJECT SUMMARY**

A. Applicant Information

South Central Regional Open MRI Imaging Center (SC Open) is a Mississippi limited liability company. SC Open, which has two principal officers, will be managed by COL Management, LLC, 301 Lake Street, Suite 102, Lake Charles, Louisiana. The facility's Board of Managers consists of five members.

B. Project Description

SC Open requests CON authority to establish magnetic resonance imaging (MRI) services at South Central Regional Imaging Center ("Imaging Center"). Applicant states that through referral arrangements with South Central Regional Medical Center ("SCRMC"), the Imaging Center and its patients will have access to the full range of diagnostic imaging, including routine diagnostic radiography, flourosopic exams, computed tomography, ultrasound, mammography, PET imaging and echocardiogram. The applicant will acquire, by capital lease, a Hitachi AIRIS II open MRI unit. The unit, which costs approximately \$1,489,150, received CON exemption from the Department of Health on March 3, 2003. The Imaging Center will be located in a renovated building located at 227 South 13<sup>th</sup> Avenue in Laurel, and the fixed unit will initially operate five days per week, 10 hours per day. The project will require 3 FTE personnel at an estimated annual cost of \$124,900.

SC Open will enter into a capital lease with Hitachi for the acquisition of the MRI unit. The monthly financing lease payment will be approximately \$23,800 per month over a 60-month term. The land and building for the Imaging Center will be leased on an operating lease for approximately \$3,000 per month over a 60-month term.

The application contains a letter from the Division of Health Facilities Licensure and Certification approving the site for MRI services. The applicant expects to obligate the capital expenditure upon issuance of the Certificate of Need and after full SC Open Board approvals are obtained. The project is expected to be completed within 14 months after CON approval.

**II. TYPE OF REVIEW REQUIRED**

Projects which propose the provision of magnetic resonance imaging services are reviewed in accordance with Section 41-7-191, subparagraphs (1) (d)(xii), and (f) 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 1972 Annotated, as amended, any 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 June 4, 2003.

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

**A. State Health Plan (SHP)**

The *FY 2003 State Health Plan* contains criteria and standards which an applicant is required to meet before receiving CON authority to acquire or otherwise control MRI equipment and provide MRI services. SC Open received CON exemption to establish an imaging center and obtain the MRI equipment; therefore, this project is for the provision of MRI services.

**SHP Criterion 1 - Need**

An entity desiring to acquire or otherwise control MRI equipment, or offer MRI services, must document that the equipment shall perform a minimum of 1,700 procedures per year and the procedures estimation methodology shall be used to project the annual patient service volume for the applicant facility. The procedures estimation methodology is summarized as follows:

$$EC = .50(TN4) + .15(TN3) + .05(TN2) + .25(Tnct)$$

Where:

- EC = Estimated MRI patient volume for the first or the next year of operation.
- TN4 = Total number of inpatient hospital admissions in DRG Category 4 for the preceding fiscal year.
- TN3 = Total number of inpatient hospital admissions in DRG Category 3 for the preceding fiscal year.
- TN2 = Total number of inpatient hospital admissions in DRG Category 2 for the preceding fiscal year.
- Tnct = Total number of outpatients who receive CT scans for the preceding fiscal year.

SC Open consulted with SCRMC of Laurel, in which the Imaging Center is to operate, to determine how many diagnoses indicative of the needs for MRI scan it treated each year. In the past full fiscal year (October 1, 2001 through September 30, 2002), the total DRG Category 4 diagnoses actually made on referral to SCRMC from its service area (Jones, Smith, Jasper, and Wayne county zip codes) were 446; the total DRG Category 3 diagnoses actually made on referral to SCRMC from its service area were 796; the total DRG Category 2 diagnoses actually made on referral to SCRMC from its service area were 2538; the total number of outpatients who received CT scans on referral to SCRMC from its service area were 4224.

Application of the formula based on actual DRG diagnosis data from the last fiscal year of SCRMC results in an projected number of MRI procedures to be performed at the Imaging

Center for the first year of operation totaling 1525.3 (EC= .50(446) + .15(796) + .05(2538) + .25(4224) = 223 + 119.4 + 126.9 + 1056 = 1525.3 estimated number of MRI procedures which would have been performed at SCRMC during that fiscal year pursuant to 2003 SHP formula).

Applicant submits that the actual MRI volumes performed at SCRMC during the fiscal year ended September 30, 2002, were 3860 (of which 2947 were outpatient procedures) an increase of 25.08 percent over fiscal year 2001. In fiscal year 1999 SCRMC reported 2111 MRI scans performed, and in fiscal year 2000 that volume increased by 25.6 percent to 2652. In fiscal year 2001 the facility reported 3086 MRI scans, an increase of 16.37 percent. SC Open further submits that of the 2947 outpatient procedures performed in fiscal year 2002, 2459 were referred to SCRMC for outpatient MRI scans by physicians who have expressed an interest in utilizing SC Open.

General Hospital Service Area 6 had a total of 5 fixed MRI units, and performed a total of 21,106 MRI procedures during FY 2001, for an average of 4,221 procedures per unit. The following table shows the location and number of MRI procedures performed in the service area for fiscal years 2000 and 2001.

**LOCATION AND NUMBER OF MRI PROCEDURES  
 General Hospital Service Area 6**

Facility	Location	Type of Equipment	No. of Proc. 2000	No. of Proc. 2001
Forrest General Hospital	Hattiesburg	Fixed	4,855	4,991
Hattiesburg Clinic, P.A.	Hattiesburg	Fixed	4,541	5,962
South Central Regional Medical Center	Laurel	Fixed	2,652	3,086
Southern Bone & Joint Specialist P.A.	Hattiesburg	Fixed	2,112	3,739
Wesley Medical Center	Hattiesburg	Fixed	3,782	3,358
<b>TOTAL</b>			<b>17,942</b>	<b>21,106</b>

Source: *FY 2003 State Health Plan*, Applications for Renewal of Hospital License for Calendar Years 2000 and 2001, and Fiscal Years 2001 and 2002 Annual Hospital Reports.

Two additional facilities provided MRI services in General Hospital Service Area 6 in fiscal year 2002 - OMRI, Inc. and Southern Medical Imaging. Updated information indicates that in fiscal year 2002 the providers in General Hospital Service Area 6 performed a total of 26,171 procedures utilizing seven units, for an average of 3,739 procedures per unit. The units in

Laurel alone (SCRMC and OMRI, Inc.) performed 5,175 procedures utilizing two units for an average of 2,588 procedures per unit.

**Note:** OMRI, Inc. is a mobile provider, providing MRI services to Hardy Wilson Memorial Hospital, Hazlehurst; Laurel Bone & Joint, Laurel; Marion General Hospital, Columbia; and Prentiss Regional Medical Center, Prentiss. OMRI, Inc. performed 1,315 procedures in fiscal year 2002.

#### **SHP Criterion 2 - Documentation of Diagnostic Imaging Modalities**

SC Open submits that through referral arrangements with SCRMC, the Imaging Center will provide its patients with access to a full range of diagnostic imaging modalities for verification and complementary studies including routine diagnostic radiography, fluoroscopic exams, computed tomography, ultrasound, PET, echocardiography, and mammography.

#### **SHP Criterion 3 - Accessibility**

Applicant submits that within the scope of its available services, neither SC Open nor the Imaging Center or its participating medical personnel shall have any policies or procedures which would exclude patients because of race, color, age, sex, ethnicity or ability to pay.

#### **SHP Criterion 4 - Staffing**

The applicant states that SC Open and COL Management will recruit and provide qualified technologists to the Imaging Center. Those technologists will be full-time MRI Radiographers or persons who have had equivalent education, training and experience, at least one of whom shall be on site at all times during operating hours and who is experienced in computed tomography or other cross-sectional imaging methods or has equivalent training in MRI spectroscopy. In addition, the Imaging Center will have full-time medical direction, as needed, of its MRI unit in the personnel of Radiology Associates, P.A.

#### **SHP Criterion 5 - Research Staffing**

The applicant states that no experimental procedures are anticipated to be performed on the MRI unit.

#### **SHP Criterion 6 - Data Requirement**

Applicant states that it shall keep or cause the Imaging Center to keep the required data in the form indicated and will make it available to the Mississippi State Department of Health upon request.

#### **SHP Criterion 7 - CON Approval**

The applicant requested and received CON exemption for the proposed equipment.

B. General Review (GR) Criteria

Chapter 8 of the *Mississippi Certificate of Need Review Manual*, revised 2000, addresses general criteria by which all CON applications are reviewed. The applicable criteria are as follows:

**GR Criterion 2 - Long Range Plan**

Applicant states that the project is consistent with SC Open's long range strategic plans developed by its management staff and approved by the SC Open Board of Managers for the provision of state-of-the-art, accessible, cost effective, efficient outpatient diagnostic imaging services to the communities and areas served by the Imaging Center.

**GR Criterion 3 - Availability of Alternatives**

Applicant submits that referral to diagnostic imaging services to Hattiesburg is an alternative which was considered by SC Open; however, such referral is a burden on the referred patients and their families. SC Open believes that increased local convenient access for patients in Jones County to diagnostic imaging services is essential to the accomplishment of the access goals and purposes of the *State Health Plan*.

Applicant also believes that there is no less costly or more effective alternative method of providing the services this project contemplates.

**GR Criterion 4 - Economic Viability**

The applicant projects a net loss of \$13,490 the first year, and net profit of \$35,934 the second year, and \$86,673 the third year for the proposed project. Therefore, the project appears to be economically viable.

**GR Criterion 5 - Need for Service**

SC Open submits that Jones County is within the primary service area of the Imaging Center. The projected population growth in Jones County is 3.46 percent between 2000 and 2003, 2.75 percent between 2005 and 2010, and 2.67 percent between 2010 and 2015. These increases in population indicate the need for convenient, accessible outpatient diagnostic imaging services in that area. The Imaging Center states that it serves all patients regardless of their ability to pay, including low income persons, racial and ethnic minorities, women, handicapped persons, the elderly and other under served groups. These groups currently have and will continue to have access to all of the services of the Imaging Center.

Applicant expects that the project will have no adverse impact on existing facilities or services providing similar services to those proposed by this application.

The application contained letters of support for the project from six physicians.

OMRI, Inc., submitted a letter in opposition to the project. OMRI, Inc. submits that the need for additional MRI services is already being met by OMRI, Inc. It further asserts that the

facility fails to establish its ability to generate the minimum volume, thus, SC Open will not be financially viable within the first two years of operation.

**GR Criterion 6 - Accessibility**

The applicant states that the Imaging Center serves all of the population, including low income, racial and ethnic minorities, women, handicapped and elderly persons. The proposed new mobile MRI unit will be used in an area which is conveniently located to diverse segments of the general public which are familiar with services and proposed location of the Imaging Center. Applicant expects that the proposed mobile MRI unit will enhance access and delivery of a full range of diagnostic imaging services and may attract additional patients of all demographic groups.

**GR Criterion 7 - Information Requirement**

SC Open affirms that it will record and maintain, or cause to be recorded and maintained, at a minimum, the required information regarding charity care, care to the medically indigent and Medicaid populations and make it available to the Department within 15 business days of request.

**GR Criterion 8 - Relationship to Existing Health Care System**

The applicant submits that this project will serve as a complement to the existing health care system of the area. Because of the growth the area is experiencing and the increasing need for diagnostic imaging services, the offering of outpatient diagnostic imaging services in Jones County will be an asset to the patients SC Open's affiliates currently serve, as well as others in the community.

As stated above, OMRI, Inc. submitted a letter of opposition to the project. The letter asserts that the SC Open application will create an unnecessary duplication of services.

**GR Criterion 9 - Availability of Resources**

The applicant states that this project is supported by area physicians.

**IV. FINANCIAL FEASIBILITY**

**A. Capital Expenditure Summary**

The expenditure associated with acquisition and installation of the proposed MRI equipment is \$1,489,150. Since MRI equipment costing less than \$1,500,000 is exempt from certificate of need review, applicant requested and was granted exemption for the equipment. However, the provision of MRI services requires certificate of need review regardless of cost. Therefore, this project is for the provision of services only. The capital expenditure reviewed for certificate of need purposes is zero.

B. Method of Financing

The proposed project will be financed with commercial loans (\$1,190,750), and member capital contributions (\$298,400).

C. Effect on Operating Cost

The applicant projects the following revenues and expenses for the first three years of operation:

	First Year	Second Year	Third Year
Salaries & Benefits	\$ 123,900.00	\$ 127,716.00	\$ 131,446.00
Supplies	45,000.00	52,500.00	60,000.00
Admin. & General	89,500.00	90,590.00	96,705.00
Other Indir. Expenses	54,000.00	54,540.00	55,096.00
Depreciation	40,000.00	40,000.00	40,000.00
Lease	285,780.00	285,780.00	285,780.00
<b>Total Expenses</b>	<b>\$ 638,180.00</b>	<b>\$ 651,126.00</b>	<b>\$ 669,027.00</b>
Gross Pt. Revenue	\$1,135,800.00	\$1,249,200.00	\$ 1,374,000.00
Deductions (-)	<u>( 511,110.00)</u>	<u>( 562,140.00)</u>	<u>( 618,300.00)</u>
<b>Net Patient Rev.</b>	<b>\$ 624,690.00</b>	<b>\$ 687,060.00</b>	<b>\$ 755,700.00</b>
<b>Net Income (Loss)</b>	<b>(\$ 13,490.00)</b>	<b>\$ 35,934.00</b>	<b>\$ 86,673.00</b>
Number of Scans	1,893	2,082	2,290
Cost/Scan	\$ 337.13	\$ 312.74	\$ 292.15
Charge/Scan	\$ 600.00	\$ 600.00	\$ 600.00

D. Cost to Medicare/Medicaid

The cost of the project to third party payers is as follows:

Patient Mix	Utilization Percentage	First Year Cost
Medicaid	0	\$ 0
Medicare	35.1	398,665.80
Other Payors	<u>64.9</u>	<u>737,134.20</u>
<b>Total</b>	<b>100.0</b>	<b>\$ 1,135,800.00</b>

The applicant projects that approximately 2.5 percent of its patients will be medically indigent and charity care patients, and 2.5 percent bad debt patients.

**V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES**

The Division of Medicaid was provided an opportunity to review and comment on this project; however, no written comments were received.

**VI. CONCLUSION AND RECOMMENDATION**

This project is in substantial compliance with the criteria and standards for the acquisition or otherwise control of MRI equipment and provision of MRI services, as contained in the *FY 2003 State Health Plan*, the *Mississippi Certificate of Need Review Manual*, 2000 revisions, 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 South Central Regional Open MRI, LLC.