

**Division of Health Planning  
And Resource Development  
May 2004**

**CON Review FSF-NIS-1203-038  
Coastal County Imaging Services, LLC  
Establishment of Open MRI Services  
Capital Expenditure: \$1,496,448.71  
Location: Gulfport, Mississippi**

**STAFF ANALYSIS**

**I. PROJECT SUMMARY**

A. Applicant Information

Coastal County Imaging Services, LLC, ("Coastal") is a closely held manager-managed Mississippi limited liability company, formed in September 2003. Corporate officers of the entity consist of six Gulfport physicians; two physicians serve as managing members.

B. Project Description

Coastal County Imaging Services, LLC requests CON authority to acquire an MRI unit to be placed at its clinic located at 4320 15<sup>th</sup> Street, Gulfport, Mississippi, and to provide open MRI services in the Gulfport area to physicians referring patients to the facility. The project will include renovation of present space leased by Coastal County Imaging Services, LLC to accommodate the placement of a fixed open MRI unit. The proposed unit is a Siemens Concerto .2T (Open MRI) unit. Applicant states that the inferences to the new unit will be supported by immediately accessible parking lots allowing all visitors to park close or within walking distance of the service area. The interior will be designed with all handicap access considerations in mind, according to the applicant.

Coastal proposes to utilize approximately 2,330 square feet of existing clinic space. Applicant states that utilities are available and only amenable renovation is needed to install an open MRI unit.

The applicant estimates that the project will require four (4) full-time equivalent personnel at an estimated cost of \$141,960 the first year.

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.

**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 3, 2004.

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

A. State Health Plan (SHP)

The *FY 2004 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.

**Acquisition or Otherwise Control of MRI Equipment**

**SHP Criterion 1 - Need**

An entity desiring to acquire or otherwise control MRI equipment 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.

Because the procedures estimation methodology is intended for use by hospitals, and not clinics, the MSDH allows freestanding applicants to use an alternative method to project the annual patient service volume for the facility. The applicant submitted affidavits from 22 physicians indicating that they will refer a total of 2,352 patients the first year and 3,168 the third year of operation. Coastal further relies on data contained in the *State Health Plan* regarding utilization of current providers of MRI services in determining that a need exists in the area.

The applicant submits that between 1999 and 2002, a three-year period, there has been a total increase of MRI procedures in General Hospital Service Area 7 of 7,150 or 33 percent. This results in an average annual increase in MRI figures of 10 percent. Applicant believes that if the 2003 figures remain consistent, the total numbers of MRI procedures for General Hospital Service Area 7 should be approximately 31,604 procedures, an increase of 2,873. Carrying this forward, applicant projects that there would be 34,764 procedures in 2004 (an estimated 3,160 increase) and 38,240 procedures in 2005 ( an estimated 3,476 increase). Anticipating such increases, the applicant believes that the Gulfport/Harrison County area can support an additional open MRI unit.

Coastal further asserts that current usage exceeds optimum utilization. According to the 2004 State Health Plan, the optimum utilization of a single MRI unit ranges between 2000 and 2500 procedures per year. At present, Harrison County has four fixed and two mobile units, not including the pending CON for Memorial Hospital at Gulfport/Orange Grove. Applicant submits that this averages out to be 3,085 procedures per unit, well above the optimum utilization procedures. When the anticipated MHG Orange Grove unit is added, the average still exceeds 2,600. Based on these figures, the applicant anticipates that the proposed fixed unit for Coastal Imaging Services, LLC will exceed 1,700 procedures annually.

General Hospital Service Area 7 has a total of 13 fixed and mobile MRI units, and performed a total of 24,535 MRI procedures during FY 2001. The twelve operating mobile and fixed units in the area performed an average of 2,045 procedures per unit during FY 2001, and

28,731 total procedures or an average of 2,394 in FY 2002. Updated projections indicate that the 12 units performed approximately 31,779 procedures in FY 2003, for an average of 2,648 procedures per unit. The following table shows the location and number of MRI procedures performed in the service area for the past two fiscal years.

**LOCATION AND NUMBER OF MRI PROCEDURES  
 General Hospital Service Area 7**

Facility	Location	Type of Equipment	No. of Proc. 2001	No. of Proc. 2002
Biloxi Regional Medical Center	Biloxi	Fixed	3,668	4,419
Coastal MRI	Gautier	Mobile	943	1,725
Garden Park	Gulfport	Fixed	1,889	1,775
George County Hospital	Lucedale	Mobile	146	7
Gulf Coast Medical Center	Biloxi	Fixed	1,363	1,618
Hancock Medical Center	Bay St. Louis	Fixed	1,806	1,955
L. O. Crosby Memorial Hospital	Pearl River	Mobile	946	984
Memorial Hospital at Gulfport	Orange Grove	Fixed	CON	CON
Memorial Hospital at Gulfport	Gulfport	Fixed (1) Mobile (1)	4,956	5,706
Ocean Springs Hospital	Ocean Springs	Fixed	2,238	2,304
Open MRI, Inc.	Gulfport	Mobile	4,029	4,993
Singing River Hospital	Pascagoula	Fixed	2,551	3,245
<b>TOTAL</b>			<b>24,535</b>	<b>28,731</b>

Source: *FY 2004 State Health Plan*, Applications for Renewal of Hospital License for Calendar Years 2001 and 2002, and Fiscal Years 2002, and 2003 Annual Hospital Reports.

**SHP Criterion 2 - Quality Assurance**

The application included a proposed lease agreement for the Siemens Concerto MRI, and assurance that the equipment is FDA approved. Applicant further assures that only qualified personnel will be allowed to operate the equipment. Applicant states that the proposed open

MRI unit will be operated under the medical direction of Frank A. Lovell, M.D., a full time Board eligible radiologist.

**SHP Criterion 3 - Information Recording/Maintenance**

The applicant affirmed that it will record and maintain all of the information required by this criterion and will make it available to the Department within 15 business days of request.

**SHP Criterion 4 - Authorized Business Entity**

Coastal County Imaging Services, LLC is a limited liability corporation duly licensed and authorized to do business in Mississippi. The entity was formed in September 2003.

**SHP Criterion 5 - Authorization to Provide MRI Service**

The applicant is requesting approval to provide MRI services.

**Criteria for Offering of MRI Services**

**SHP Criterion 1 - Need**

Based on statistics stated in the FY 2004 State Health Plan, the applicant expects to perform a minimum of 1,700 procedures per year by the second year of operation. The applicant submitted affidavits from 22 physicians who anticipate utilizing the services of Coastal. These physicians project approximately 2,352 procedures the first year and 3,168 procedures the second and third years of operation.

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

The applicant certifies that a full range of diagnostic imaging modalities for verification and complementary studies will be available through either Coastal or other providers with whom Coastal or its members have staff privileges. Among these modalities are computed tomography, ultrasound, angiography, nuclear medicine, and conventional radiology. However, the services provided will be dependent upon the specific type of referrals to the unit.

**SHP Criterion 3 - Accessibility**

Coastal County Imaging Services, LLC certified that, within the scope of its available services, it will not have policies or procedures which would exclude patients because of race, color, age, sex, ethnicity or ability to pay.

**SHP Criterion 4 - Staffing**

The applicant certified that the medical director will be a board-certified radiologist or other qualified physician. A qualified MRI technologist-radiographer will also be on-site at all times during operating hours. The staff will also include one person with management duties, one person with clerical duties, and one person with billing duties.

**SHP Criterion 5 - Research Staffing**

The applicant states that Coastal does not anticipate that the MRI unit will be used for experimental study.

**SHP Criterion 6 - Data Requirement**

Coastal certified that it will maintain the required information regarding its use of the MRI equipment, and will provide this information to the MSDH upon request.

**SHP Criterion 7 - CON Approval**

The applicant seeks the required CON approval.

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 it is the long range plan of Coastal County Imaging Services, LLC to provide state-of-the-art equipment and treatment modalities to the patients in its service area. It submits that the proposed fixed open MRI unit is consistent with this plan as it will provide increased access to patients in need of quality care and treatment services.

**GR Criterion 3 - Availability of Alternatives**

Coastal County Imaging Services, LLC believes that the purchase and operation of a fixed and open MRI unit would be the most cost efficient and effective way by which to serve the patients in the community at the present time. It states that it considered utilizing a mobile and/or fixed standard high field unit; however, such units are already existing in multiple locations throughout Harrison County.

**GR Criterion 4 - Economic Viability**

Based on projections presented in the Three-Year Projected Operating Statement included in the application, the applicant will realize a net profit of \$1,637 the first year, \$32,424 the second year, and \$40,782 the third year for the proposed project. Applicant anticipates that 24 percent of the gross collections will be reimbursed under the Medicare allowed global

reimbursement (\$583.30) with 76 percent of the gross collections reimbursed at \$700.00 per procedure.

**GR Criterion 5 - Need for Service**

Applicant submits that Coastal County Imaging Services, LLC will offer open MRI services to all patients including, but not limited to, low income, racial and ethnic minorities, women, and handicapped patients.

Coastal states that studies have shown that as use of MRI has proliferated, significant limitations have appeared: claustrophobia and anxiety-related reactions, restrictions on patient size and weight, and lack of access to the patient undergoing the examination have surfaced as problems facing traditional closed MRI scanners.

Based on a population of 2,844,658, the total MRI procedures performed in the state for 2002 (171,687), the applicant estimates that there were 60.35 MRI procedures for every 1,000 population. Using this formula, applicant projects that Harrison County, with a projected population of 196,833, would statistically support 11,808 MRI procedures per year ( $196.8 \times 60$ ). Applicant asserts that in actuality, Harrison County performed 18,511 procedures, resulting in 94 MRI procedures for every 1,000 population, well above the statewide average of 60.

Applicant estimates that in Harrison County alone, MRI procedures increased by 6,447 or 53.34 percent over a three-year period between 1999 and 2002. This results in an average annual increase in MRI figures of 17.78 percent. If the 2003 utilization figures remain consistent, applicant anticipates that the total number of MRI procedures for the Harrison County area should increase to 21,803, an increase of 3,291. Carrying this forward, applicant projects there would be 25,678 procedures in 2004 (an increase of 3,876) and 30,243 procedures in 2005 (an estimated increase of 4,565). Based on these statistics, applicant contends that the 2003-2005 figures are more than enough to support two or more additional MRI units.

Staff calculated the average procedures performed statewide to be 57.39 per 1,000 population. Applying the applicant's formula, this would yield a projected 11,294.35 procedures for Harrison County ( $196.8 \times 57.39$ ). As previously stated, GHSA 7 performed a total of 28,731 procedures in FY 2002 utilizing 12 units, for an average of 2,394. Updated projections reveal that for FY 2003, GHSA 7 performed a total of 31,779 procedures utilizing the 12 units, for an average of 2,648 procedures per unit. Therefore, staff accepts applicant's contention that the area can support another open MRI unit.

The applicant submitted letters from 22 physicians indicating the number of referrals that each physician will provide the facility. The physicians collectively propose to refer approximately 2,352 procedures the first year and 3,168 procedures by the end of the second year..

The application contained 24 letters of support from physicians, business owners, and community and political leaders.

**GR Criterion 6 - Accessibility**

The applicant states that Coastal will provide services to Medicare and Medicaid patients. In addition, applicant submits that it will provide MRI services at reduced fees or at no charge for persons who are unable to pay. Further, Coastal states that it does not discriminate against and will provide access to the poor, physically handicapped, women, elderly, or members of racial and ethnic minorities.

Based on historical utilization rates for members of Coastal County Imaging Services, LLC, applicant states figures for all categories of self-pay patients, including non-paying and bad-debt patients for the previous twelve months were 13 percent or \$2,264,367.

**GR Criterion 7 - Information Requirement**

Coastal County Imaging Services, LLC affirmed that it will maintain records regarding charity care, care to the medically indigent, and Medicaid/Medicare populations, and make items available to the Mississippi State Department of Health within 15 days of request.

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

The applicant submits that Coastal intends to provide the citizens of Gulfport and neighboring communities with timely and convenient MRI services. The applicant does not anticipate any *adverse* impact on existing facilities, but instead expects to complement their services by proposing to offer needed open MRI services at an efficient and expedient manner.

The Department received 21 letters of opposition on the project from local physicians and community leaders on behalf of Compass Imaging and Cedar Lake Open MRI, LLC. All letters maintain that the application by Coastal County Imaging, LLC will have an adverse impact on Compass Imaging.

**GR Criterion 9 - Availability of Resources**

The applicant states that the proposed MRI services will be supervised and directed by a board certified radiologist, Frank A. Lovell, M.D. All necessary radiology technicians will be provided.

Applicant submits that although Coastal County Imaging Services, LLC is a newly formed, manager-managed limited liability company, its current members also operate a radiological practice at the same location under the name of SMB Radiology, LLC, which has been serving the coast for the past 28 years. At present time, SMB Radiology, LLC operates with a staff of 10 board certified radiologists, providing radiological services at Memorial Hospital at Gulfport, Garden Park Hospital, and Hancock Medical Center. Prior to initiation of operations of the open MRI, Coastal states it will employ additional staff to adequately support the proposed operation, to-wit:

1. Supervisor/MRI technologist - salaried full-time
2. Assistant Supervisor/MRI technologist - salaried full-time
3. Receptionist/Clerk - hourly full-time

4. Assistant Receptionist/Clerk - hourly full-time

**IV. FINANCIAL FEASIBILITY**

A. Capital Expenditure Summary

Construction Cost - Renovation	\$ 191,152.00
Capital Improvements	40,000.00
Total Fixed Equipment Cost	191,060.00
Total Non-Fixed Equipment Cost	1,023,586.71
Fees	21,900.00
Contingency Reserve	10,000.00
Capitalized Interest	18,750.00
<b>Total Proposed Capital Expenditure</b>	<b>\$1,496,448.71</b>

The above proposed capital expenditure is for the acquisition and installation of an open MRI unit at Coastal County Imaging Services, LLC. The project will be approximately 2,330 square feet with an estimated cost for renovations of \$186 per square foot. The cost per square foot is comparable to other projects reviewed by the MSDH.

B. Method of Financing

The applicant proposes to finance the project through a construction loan with Hancock Bank of Gulfport. The application contained a letter from Hancock Bank indicating its willingness to consider financing and suggested different scenarios. The letter states that based upon the floating rate scenario, interest would be approximately \$18,750 for 120 days. Interest would be approximately \$301,102 for a five-year amortization based upon the floating rate scenario should the rate either increase or decrease.

C. Effect on Operating Cost

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



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	First Year	Second Year	Third Year
Construction Fees	\$ 4,642.80	\$ 4,642.80	\$ 4,642.80
Capitalized Interest	3,975.00	3,975.00	3,975.00
Const/Build Out	40,524.22	40,524.22	40,524.22
Site MRI	40,504.72	40,504.72	40,504.72
Rent	41,994.00	43,253.82	44,551.43
Imaging Equip.-MRI	139,156.80	139,156.80	139,156.80
Service Contract-MRI		76,500.00	76,500.00
Radiography Room	12,356.63	12,356.63	12,356.63
Rad. Rm Serv. Contract		6,593.00	6,593.00
Film Proc/Dry Printer	20,000.50	20,000.50	20,000.50
Film Proc. Service		13,089.00	13,089.00
PACS	45,486.30	45,486.30	45,486.30
PACs Serv. Contract		24,430.00	24,430.00
Furnishings/Anc. Equip.	40,000.00	3,000.00	3,000.00
Telephone Expense	3,600.00	3,600.00	3,600.00
Utilities	6,000.00	6,180.00	6,365.40
Employee Salaries	141,960.00	147,638.40	153,543.94
Med. Supplies-MRI	54,546.03	62,727.93	72,137.12
Marketing Budget	60,000.00	60,000.00	60,000.00
Billing Fees	35,820.92	41,196.72	47,370.91
Prop. Ins.: Contents	7,500.00	7,500.00	7,500.00
Legal/Account Fees	25,000.00	5,000.00	5,000.00
Operating Cash	16,000.00	14,400.00	12,906.00
Prof. Radiology Fees	134,328.45	154,487.71	177,640.90
Office Supplies	2,400.00	2,472.00	2,546.16
Equip. Upgrades			100,000.00
Employee Training	3,500.00	3,500.00	4,000.00
Transcription	4,590.00	5,278.50	6,070.28
Contingency	<u>10,000.00</u>	<u>10,000.00</u>	<u>10,000.00</u>
<b>Total Expenses</b>	<b>\$ 893,886.37</b>	<b>\$ 997,494.05</b>	<b>\$1,143,491.11</b>
<b>Net Patient Rev.</b>	<b>\$ 895,523.00</b>	<b>\$1,029,918.00</b>	<b>\$1,184,273.00</b>
<b>Net Income</b>	<b>\$ 1,636.63</b>	<b>\$ 32,423.95</b>	<b>\$ 40,781.89</b>
No. Procedures	1,530.00	1,760.00	2,023.00
Cost/Procedure*	\$ 584.24	\$ 566.76	\$ 565.25
Charge/Procedure*	\$ 585.30	\$ 585.18	\$ 585.40

Note: The above costs and charges are based on staff's calculations.

D. Cost to Medicare/Medicaid

The applicant projects the following costs to third party payors:

Patient Mix	Utilization Percentage	First Year Cost
Medicaid	12.00	\$ 101,266.40
Medicare	38.00	339,676.82
Other Payors	<u>50.00</u>	<u>446,943.19</u>
<b>Total</b>	<b>100.00</b>	<b>\$ 893,886.37</b>

The applicant projects that approximately 13 percent of its gross patient revenue will fall within the categories of bad debt patients, medical indigent patients, and charity patients.

**V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES**

The Division of Medicaid was provided an opportunity to review and comment on this project. Outpatient services are paid as outlined in the State Plan; therefore, the Division of Medicaid took no position on the project.

**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 2004 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 Coastal County Imaging Services, LLC.