

**MISSISSIPPI STATE DEPARTMENT OF HEALTH
DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
JULY 2011**

**CON REVIEW: HG-A-0411-007
ANDERSON REGIONAL MEDICAL CENTER, MERIDIAN
AMENDMENT TO CON #R-0797 (ACQUISITION OF MAGNETIC RESONANCE IMAGING (MRI)
EQUIPMENT AND ESTABLISHMENT OF MRI SERVICES)
ORIGINAL CAPITAL EXPENDITURE: \$3,684,900
ADDITIONAL CAPITAL EXPENDITURE: \$919,540
TOTAL CAPITAL EXPENDITURE: \$4,604,440
LOCATION: MERIDIAN, LAUDERDALE COUNTY, MISSISSIPPI**

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

Anderson Regional Medical Center (ARMC) is a non-profit, 260-bed general acute care Hospital. The hospital is governed by a five-member Board of Directors. Anderson Regional Medical Center is accredited by the Joint Commission on the Accreditation of Healthcare Organizations and licensed by the Mississippi State Department of Health.

B. Project Background

Anderson Regional Medical Center was issued CON No. R-0797, with an effective date of October 29, 2009, and an expiration date of October 29, 2010. The certificate authorized the applicant for the acquisition of Magnetic Resonance Imaging (MRI) equipment and establishment of MRI services.

The proposed project entailed the establishment of MRI services on the campus of ARMC. The MRI suite was designed as a one-story concrete frame addition at the west end of the existing Imaging Suite at ARMC. The applicant proposed to construct a total of 3,040 square feet of space at a cost of \$381.57 per square foot for 2,220 square feet new construction and \$145.46 per square foot for 820 square feet of renovation.

C. Project Description

ARMC now requests Certificate of Need Authority for an amendment to its CON No. R-0797 originally approved in October 2009 for the acquisition of MRI equipment and establishment of MRI services for an approved capital expenditure of \$3,684,900.

The applicant states that following approval of the proposed project their team (Planners, Consultants, Architects, and Executive Staff) revisited the proposed MRI addition and determined that there was a better way to accomplish their goals. The team determined that the current Imaging Suite at ARMC could be renovated to house the MRI instrument and thereby eliminate the need for construction of the new building. The applicant affirms that renovating the Imaging Suite would reduce the cost of the proposed project by \$789,000.

The proposed project will consist of the following parts:

➤ Phase 1	
RAD Room Construction	360 Square Feet (SF)
Estimated cost construction	\$93,600
Plus equipment installation	
Cost of RAD equipment	\$450,000
➤ Phase 2	
RAD/FL Room Construction	460 SF
Estimated cost of construction	\$18,500
Plus equipment installation	
Cost of RAD equipment	\$550,000
➤ Phase 3	
Interventional Procedures	1247 SF
Estimated cost construction	\$299,280
Plus equipment installation	
Cost of RAD equipment	\$850,000
➤ Phase 4	
MRI Suite	844 SF
Estimated cost construction	\$255,120
Plus equipment installation	
Cost of RAD equipment	\$1,725,000

The applicant states that if the amendment is granted the proposed project will be completed in September 2012.

II. TYPE OF REVIEW REQUIRED

The original project was reviewed in accordance with Section 41-7-173; 41-7-191, subparagraph (1) (d) (xii), (f), and (i), and 41-7-193 of the Mississippi Code of the 1972, Annotated, as amended.

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 August 1, 2011.

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

A. State Health Plan (SHP)

The *FY 2011 State Health Plan* addresses policy statements and service specific criteria and standards which an applicant is required to meet before receiving CON authority for the acquisition of Magnetic Resonance Imaging (MRI) equipment and establishment of MRI services.

The original application was in substantial compliance with the overall objectives of the *Plan* in effect at the time of submission. The proposed project continues to be in compliance with the *State Health Plan*.

B. General Review (GR) Criteria

Chapter 8 of the Mississippi Certificate of Need Review Manual (May 1, 2010 as amended) addresses the general criteria by which all applications for Certificate of Need are reviewed. This project was in substantial compliance with general review criteria at the time of original submission. Anderson Regional Medical Center continues to be in substantial compliance with said criteria.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

	Original Approved Amount	Revised Amount	Increase/ (Decrease)
1. New Construction Cost	\$789,000	\$0	\$(789,000)
2. Construction/Renovation	52,000	718,500	666,500
3. Land	0	0	0
4. Site Work	51,500	51,500	0
5. Fixed Equipment	2,639,600	3,575,000	935,400
6. Non-Fixed Equipment	0	0	0
7. Contingency	89,250	155,900	66,650
8. Fees (Architectural, Consultant, etc)	63,550	103,540	39,990
9. Capitalized Interest	0	0	0
10. Capital Improvement	0	0	0
Total Capital Expenditure	\$3,684,900	\$4,604,444	\$919,540

Total capital expenditure for the project has increased as a result of the following:

- The applicant states that their team proposes an extensive renovation of the Imaging Suite. The additional costs associated with the renovation are \$666,500.
- Since the approval on the original CON, ARMC has selected fixed MRI equipment costing 914,000, less than the one initially chosen.

- The additional Digital Radiography equipment for the RAD Room, the RAD/FL Room and the Interventional Procedures Room shall cost \$1,850,000.
- The total increase in the capital expenditure associated with the equipment is \$935,400.
- The Contingency amount has increased \$66,650.
- The applicant states that as a result of increase of the cost of the proposed project, the architectural and planning fees have increased \$39,990.

The original CON application contemplated a capital expenditure of \$3,684,900 for the project, whereas the amendment will increase the capital expenditure to \$4,604,444.

The applicant affirms that 15% of the preparation and planning work for the renovation/construction has been completed. Renovation has commenced and Five Percent (5%) of the renovation has been completed. The capital expenditure made to date is \$572,000.

B. Method of Financing

The applicant proposes that the project will be financed from cash reserves. The applicant provided financial statements from ARMC in the original application indicating sufficient cash flow to support the project.

C. Effect on Operating Cost

The One-Year Projected Operating Statement is presented in Attachment 1 of this staff analysis.

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application; however, no written comments were received from the Division.

VI. CONCLUSION AND RECOMMENDATION

The original project was in substantial compliance with the overall criteria and standards for the acquisition or otherwise control of MRI equipment and for offering of MRI services as contained in the *FY 2007 Mississippi State Health Plan* in effect at the time the project was originally submitted; Chapter 8 of the *Mississippi Certificate of Need Review Manual*, revised November 2006; and all adopted rules, procedures, and plans of the MSDH. This project continues to be in substantial compliance with all rules, procedures and plans.

The Division of Health Planning and Resource Development recommends approval of the application submitted by Anderson Regional Medical Center, Meridian, for the amendment to CON No. R-0797 (acquisition of MRI equipment and establishment of MRI services).

Attachment I

Anderson Regional Operating Statement

One-Year Operating Statement

	<u>AMOUNT</u>
Gross Revenue	
Inpatient	\$5,814,513
Outpatient	9,470,827
Total Gross Revenue	15,285,339
Contractual Adjustments (60%)	(9,171,203)
Charity (2%)	<u>(305,707)</u>
Net Patient Care Revenue	\$5,808,409
Total Operating Revenue	\$5,808,409
Direct Expenses	
Salaries and Wages	\$1,466,601
Fringe Benefits	366,650
Supplies Drug	4,040
Supplies Medical	62,684
Supplies – Other	225,938
Purchase Services	8,049
Maintenance	230,755
Other Expenses	<u>4,424</u>
Total Expenses	\$2,369,141
Operating Income before Indirect Expenses	\$3,439,288
Indirect Expenses	
Salaries and Wages	\$ 10,400
Fringe Benefits	2,600
Collections	4,199
Postage	1,610
Linen	3,586
Insurance	28,373
Utilities	28,665
Depreciation (Equipment)	510,714
Depreciation (Renovation)	41,178
Bad Debt Expense	<u>687,840</u>
Total Indirect Expense	\$1,319,165
Operating Income (Loss)	\$2,120,123
Total Number of Procedures/Scans	38,245
Charge Per Procedure	\$399.67
Cost Per Procedure	\$ 96.44