

**DIVISION OF HEALTH PLANNING AND RESOURCE DEVELOPMENT
NOVEMBER 2004**

CON Review: HG-NIS-0804-038
River Oaks Hospital, Inc.
Establishment of Fixed MRI Services
Capital Expenditure: \$2,047,012
Location: Jackson, Mississippi

STAFF ANALYSIS

I. PROJECT SUMMARY

A. Applicant Information

River Oaks Hospital is a 110-bed short-term, proprietary acute care hospital owned and operated by Health Management Associates, Inc. (HMA). The Board of Trustees of River Oaks Hospital System consists of 21 members. The Hospital is accredited by the Joint Commission on Accreditation of Healthcare Organizations and the American College of Radiology, and is certified to participate in the Medicare and Medicaid programs.

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

River Oaks Hospital			
Fiscal Year	Occupancy Rate (%)	ALOS (Days)	Medicaid* Utilization Rate (%)
2000	66.30	4.15	6.08
2001	73.53	4.22	19.97
2002	77.39	4.21	23.30

Source: Division of Health Facilities Licensure and Certification, MSDH

B. Project Description

River Oaks Hospital (ROH) requests Certificate of Need (CON) authority for the establishment of fixed Magnetic Resonance Imaging (MRI) Services. River Oaks Hospital proposes to expand its scope of care by providing MRI services to its patients and residents of the community. The hospital proposes to purchase a GE Signa Infinity1.5 tesla MRI unit. The unit is FDA approved. The applicant proposes to house the MRI equipment in a transportable modular building. The modular building is comprised of approximately 833 square feet. The applicant proposes to site the GEMS building directly behind the Imaging Department and adjacent to the Emergency Department. There will be a new concrete pad, plumbing, electrical, and landscaping. Additionally, an 8-foot corridor, separated by a 2-hour firewall and door assembly connecting the hospital to the GEMS unit will be constructed.

II. TYPE OF REVIEW REQUIRED

This application for provision of magnetic resonance imaging services is reviewed in accordance with section 41-7-191, subparagraphs (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 on December 6, 2004.

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

A. State Health Plan

The FY 2004 State Health Plan addresses policy statements, 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. The applicant is in substantial compliance with applicable criteria.

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 specified equipment shall perform a minimum of 1,700 procedures per year and the applicant shall use an alternate methodology to project the annual patient service volume for the applicant facility.

The applicant has utilized the Procedures Estimation Methodology as required. It has also provided two alternative methodologies. The prescribed methodology suggests that River Oaks Hospital can support 2,672 MRI scans. The alternative methodology is based on an extrapolation of a 6-month sample (January through June 2004) to provide an annual estimate. This methodology suggests that River Oaks Hospital can support 2,919 MRI scans.

Furthermore, River Oaks Hospital obtained a representative sample of physician affidavits indicating, from a review of their office records, they would refer 1,118 outpatient MRI scans to the facility. Together with the 681 inpatients referred to other facilities by River Oaks Hospital for MRI procedures during fiscal year 2003, the affidavits result in 1,799 MRIs. The applicant states that the universe of potential physician referrals is much greater than the amount suggested by this limited number of affidavits.

MRI patients at the proposed service at River Oaks Hospital will originate from several sources. These are: (1) population growth; (2) population aging; and (3) shift of referrals from other facilities of inpatients admitted to River Oaks Hospital and outpatients who might otherwise have used River Oaks Hospital for care.

There are twenty (20) hospitals located in General Hospital Service Area III. Of these, 13 offer fixed or mobile MRI services. During 2002, GHSA III experienced 53,244 MRIs among 18 fixed and 10 mobile units. This averages 1,902 MRIs per unit. River Oaks Hospital is the only hospital in the Jackson metro area without MRI capability. Furthermore, it is the largest acute care hospital in the region without the service.

The increased demand for MRI services is a result of increased availability, increased application of the technology and the aging of the population. The projected growth of the elderly population will have enormous implications on the demand for and supply of MRI devices.

SHP Criterion 2 - Documentation of Diagnostic Imaging Modalities

River Oaks Hospital offers an active and dynamic radiological service which includes the following:

- CT Scanning
- Ultrasound
- Echocardiography
- Nuclear Medicine
- Mammography
- Digital Angiography
- Cardiac Catheterization

SHP Criterion 3 - Accessibility

The applicant assures MSDH that the facility, participating medical personnel, and its employees will not have policies or procedures which exclude patients from obtaining a medically necessary and prescribed MRI scan because of race, color, age, sex, ethnicity, or ability to pay.

SHP Criterion 4 - Staffing

The applicant hereby assures MSDH that all physicians and technical personnel utilizing the MRI equipment will meet or exceed the standards set forth above. Furthermore, the applicant will operate the proposed MRI equipment in conformance with the standards of the American College of Radiology for Diagnostic Medical Physics Performance Monitoring of Magnetic Resonance Imaging (MRI) Equipment [Res. 19-1999] and Performance of Magnetic Resonance Imaging (MRI) of the Adult Spine [Res. 13-2001], as well as other applicable standards and licensing criteria. A Curriculum Vitae of the physician director is included in the application. The MRI technicians will be recruited upon approval of this application.

SHP Criterion 6 - Data Requirement

The applicant affirms that it will record and maintain the requested information and make it available to the Mississippi State Department of Health.

SHP Criterion 7 - CON Approval

River Oaks Hospital submits the CON application for the control of MRI equipment and establishment of fixed-base MRI services at its facility.

B. General Review (GR) Criteria

Chapter 8 of the Mississippi Certificate of Need Review Manual, revised May 13, 2000, addresses general criteria by which all CON applications are reviewed.

GR Criterion 2 - Long Range Plan

This proposal is consistent with the long range plans of River Oaks Hospital to provide a broad range of diagnostic and therapeutic services consistent with the needs of its patients and the overall mission of the hospital.

GR Criterion 3 - Availability of Alternatives

This proposal is responsive to the needs of patients and demands of members of the medical staff of River Oaks Hospital. River Oaks provides imaging services for the diagnoses of a broad range of conditions and diseases but does not yet provide MRI scanning. The proposal would enable the hospital to offer patients that use River Oaks Hospital for other imaging techniques to utilize the facility for MRI scanning. This effectively reduces or entirely eliminates the need for transfers to other facilities with the attendant scheduling problems, patient stress, and fragmentation of care.

There are three alternatives to the proposed project: 1) maintain the status quo; 2) develop a mobile MRI service; and 3) construct an MRI vault and support space within the hospital. Each alternative, and the reason for the rejection of each, is discussed below.

Maintain status quo

Inpatients now requiring MRI scanning have two options: (1) not obtain the service; or (2) transfer to another facility offering MRI services. These options are typically more expensive, disruptive, and inconvenient for both the patients and physicians. Outpatients who use River Oaks Hospital for a range of imaging services must be scheduled at another facility for the MRI, often creating scheduling problems and requiring multiple visits which, in the alternative, may be accomplished in one visit. The hospital considers maintaining the status quo to be an inappropriate response.

Develop a Mobile MRI service

River Oaks Hospital estimates it will conduct over 2,600 MRI scans in its first year of operation. Of these, nearly 700 are estimated to be inpatient scans. This is equivalent to 10.4 scans per day (250 days of service per year) and beyond the operational parameters of a mobile service. Therefore, this alternative was rejected.

Construct an MRI Vault with Support Space

River Oaks Hospital has received approval for the renovation and expansion of its facility, including the imaging department. However, this project has been appealed by St. Dominic's Hospital. While such an alternative might be superior under ideal circumstances, an appeal may last another 12-24 months. River Oaks Hospital, its physicians and their patients cannot wait two more years for MRI services. Therefore, this alternative was also rejected.

GR Criterion 4 - Economic Viability

The charges for MRI services are comparable with charges at other facilities in the Jackson area that now offer the service. Charges were calculated by a survey of existing charges, with input from physicians and the equipment vendor. A copy of the proposed charges are included in the application.

The proposed project has been determined to be financially feasible by ROH's management staff, and the proposal should have no significant effect on the cost of providing health services by ROH or local hospitals. Based on the applicant's three year projections, this project will be economically viable. The first three years projected net income will be \$2,237.00, \$2,803.00 and \$3,481.00, respectively.

GR Criterion 5 - Need for Services

The applicant anticipates that utilization of the MRI service will be comparable to or exceed that experienced at other facilities within the service area and state. Furthermore, it is anticipated that the MRI service will meet the needs of the majority of medically qualified patients who would typically select River Oaks Hospital for care. Utilization of the service will be reflective of its acceptability and accessibility.

Low income groups are at greater risk of reduced access and of unnecessary hospitalization for ambulatory case-sensitive conditions or illnesses. Approximately 33% of the population in the hospital's service area is designated as having household incomes below \$25,000 per year. All residents, regardless of age, gender, physical disability, ethnicity, or income status, will have access to the MRI services at River Oaks Hospital.

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

GR Criterion 6 - Access to the Facility or Service

During FY 2003, River Oaks Hospital patients were comprised of 11 % Medicaid recipients, 29% ethnic minorities, and 76% females. Another 2% were classified as medically indigent. The hospital does not keep records regarding the frequency of admission by physical handicap but complies with all federal and state laws and regulations pertaining to the treatment of patients with disabilities.

The applicant projects the following number of procedures for the next three years of operation:

Year	Year 1	Year 2	Year 3
# of procedures	2,650	2,915	3,207

GR Criterion 7 - Information Requirement

River Oaks Hospital affirm that they will record and maintain, at minimum, information regarding charity care, care to the medically indigent, and Medicaid populations and make it available to the Mississippi State Department of Health within 15 business days of any request for same.

GR Criterion 8 - Relationship to Existing Health Care System

River Oaks Hospital is an integral component of the Jackson metropolitan health delivery system. It is the only general hospital in the Metro-Jackson area that does not offer MRI services. Patients who may receive preliminary imaging services at River Oaks Hospital and who otherwise would use the facility for MRI scanning must seek such care elsewhere.

GR Criterion 9 - Availability of Resources

River Oaks Hospital has both the financial resources and human resources to provide MRI services. This proposed service will complement existing services offered through the hospital and has the support of the majority of physicians who will provide the referral base for the services.

GR Criterion 10 - Relationship to Ancillary or Support Services

MRI services will function under the supervision of the Imaging Department of River Oaks Hospital. The staff and equipment will be provided by the hospital. There will be no changes in ancillary or support services.

GR Criterion 16 - Quality of Care

River Oaks Hospital submits that it is an integral component of the health care delivery system in Jackson, Mississippi. The dedication of its employees, the expertise of its medical staff, and management's dedication to provide state-of-the-art technology in an aesthetically pleasing environment have become widely recognized by the communities it serves. The hospital is licensed by the Mississippi State Department of Health, accredited by the Joint Commission for Accreditation of Health Care Organizations (JCAHO), and certified for participation in the Medicare and Medicaid programs.

IV. FINANCIAL FEASIBILITY

A. Capital Expenditure Summary

New Construction	\$ 145,000
Renovation Cost	\$ 32,000
Fixed Equipment Cost	\$ 543,920
Non Fixed Equipment Cost	\$ 1,315,092
Contingency Reserve	\$ 3,200
Other Cost	\$ <u>7,800</u>
Total Expenditure	\$ <u>2,047,012</u>

The proposed capital expenditure is for renovation of 1,037 square feet at \$175.00 per square foot. The new construction consist of a modular building comprised of approximately 833 square feet.

B. Method of Financing

The project will be funded from cash as an inter-company transfer provided by the hospital's parent company, Health Management Associations, Inc. (HMA). A letter from HMA attesting to the availability of funding is included in the application.

C. Effect on Operating Cost

The applicant projects the following expenses, utilization, and results from operation for the first three years following completion of the project:

EXPENSES	YEAR 1	YEAR 2	YEAR 3
Salaries & Wages	\$ 141,000	\$ 161,000	\$ 184,000
Taxes & Benefits	\$ 30,000	\$ 34,000	\$ 38,000
Supplies	\$ 139,000	\$ 157,000	\$ 178,000
Utilities	\$ 20,000	\$ 23,000	\$ 25,000
Repair & Maintenance		\$ 128,000	\$ 133,000
Insurance	\$ 2,000	\$ 2,000	\$ 2,000
Depreciation	\$ 261,000	\$ 261,000	\$ 261,000
Provision for Bad Debts	\$ <u>280,000</u>	\$ <u>350,000</u>	\$ <u>430,000</u>
TOTAL OPERATING EXP.	\$ <u>873,000</u>	\$ <u>1,116,000</u>	\$ <u>1,251,000</u>
Inpatient Revenue	\$ 1,403,000	\$ 1,695,000	\$ 2,054,000
Outpatient Revenue	\$ <u>4,692,000</u>	\$ <u>5,680,000</u>	\$ <u>6,871,000</u>
TOTAL PAT. REVENUE	\$ 6,095,000	\$ 7,375,000	\$ 8,925,000
*Deduction from Revenue	\$ -3,858,000	\$ -4,573,000	\$ -5,444,000
NET PAT. SVC. REV.	\$ <u>2,237,000</u>	\$ <u>2,802,000</u>	\$ <u>3,481,000</u>
NET INCOME (LOSS)	\$ <u>1,364,000</u>	\$ <u>1,686,000</u>	\$ <u>2,230,000</u>
NUMBER OF SCANS	2,650	2,650	2,650
TREATMENT PATIENTS	1	1	1
NO. OF TREATMENT	1	1	1
COST PER PROCEDURE	\$ 329	\$ 421	\$ 472
CHARGE PROCEDURE	\$ 2,300	\$ 2,783	\$ 3,368
COST for 2 nd & 3 rd yr. Calc. by (STAFF)	\$ 329	\$ 421	\$ 472
CHARGE 2 nd & 3 rd yr. Calc. by (STAFF)	\$ 2,300	\$ 2,783	\$ 3,368
*Includes Indigent & Charity Care	\$ 123,000	\$ 146,000	\$ 174,000

Applicant projects approximately 7 percent of gross revenue for bad debt patients, medically indigent patients and charity care patients.

The applicant provided the following depreciation schedule:

Item	Schedule	Amount	Annual
MRI Equipment	7	\$ 1,315,092	\$ 187,870
Building	10	\$ 543,920	\$ 54,392
Other Cost	10	\$ 188,000	\$ 18,800
Total		\$ 2,047,012	\$ 261,062

D. Cost to Medicaid/Medicare

Patient Mix by Type Payor	Utilization Percentage	First Year Expenses
Medicaid	11.0%	\$ 96,030
Medicare	30.0%	\$ 261,900
Blue Cross	27.0%	\$ 235,710
Other	29.0%	\$ 253,170
Self Pay	3.0%	\$ 26,190
TOTAL	100.0%	\$ 873,000

V. RECOMMENDATIONS OF OTHER AFFECTED AGENCIES

The Division of Medicaid was provided a copy of this application for comment. The Division of Medicaid estimates the increased annual cost to Medicaid for the capital expenditure to be \$29,285 for inpatient hospital services. Outpatient services are paid as outlined in the State Plan.

VI. CONCLUSION AND RECOMMENDATION

This project is in substantial compliance with criteria and standards contained in the 2005 State Health Plan; the Certificate of Need Review Manual, revised 2000; and duly adopted rules, procedures, and plans of the Mississippi State Department of Health.

The Division of Health Planning and Resource Development recommends approval of the application submitted by River Oaks Hospital for the Establishment of MRI Services.