

TO: North Carolina State Health Coordinating Council
Healthcare Planning and Certificate of Need Section
North Carolina Division of Health Service Regulation
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RE: Comments Regarding Cape Fear Valley Health System Petition To Make
Changes to Proposed Policy TE-3

Alliance Healthcare Services submits these comments in opposition to the petition submitted by Cape Fear Valley Health System. Also, Alliance Healthcare Services stands by its previous comments that were submitted regarding Policy TE-3.

The Cape Fear Valley petition to make changes to the proposed Policy TE-3 should be denied because it supports unnecessary duplication of healthcare services and the petition includes grossly inaccurate financial data. The petitioner's representation that 400 annual MRI procedures is the breakeven volume is not credible because the analysis is based on incorrect and understated expenses. The most obvious error in the Cape Fear analysis is the \$170,000 amount as the line item "Savings on mobile" is misrepresented as a credit that reduces the overall MRI expenses. This is incorrect because once a fixed MRI scanner is acquired the expense for mobile MRI simply becomes zero. The hospital does not receive a \$170,000 savings credit that reduces overall MRI expense for each of the first three years.

Cape Fear's expenses are inaccurate and grossly understated because not only are employee benefits and on-call pay omitted, but no expense is shown for MRI contrast or supplies. The administrative and support salaries are excluded. Furthermore, the MRI maintenance service is understated because this cost typically exceeds \$100,000 per year for a 1.5 Tesla MRI rather than the \$37,500 amount provided in the Cape Fear analysis.

Below is a copy of the financial attachment included in the Cape Fear petition. It is neither a valid breakeven analysis nor an accurate comparison of fixed vs mobile MRI expenses.

Fixed vs. Mobile MRI Breakeven Analysis
PROJECTED INCREMENTAL STATEMENTS OF INCOME
YEAR 1 THROUGH 3

<u>PROCEDURE VOLUME - Breakeven</u>	<u>YEAR 1</u>	<u>YEAR 2</u>	<u>YEAR 3</u>
	400	400	400
<u>NET REVENUE</u>			
Net Revenue	300,000	300,000	300,000
Total Net Revenue	\$ 300,000	\$ 300,000	\$ 300,000
<u>EXPENSES</u>			
Labor Exp	134,784	137,480	140,229
Savings On Mobile	(170,000)	(170,000)	(170,000)
Repairs and Maint		37,500	37,500
Depr Exp	285,714	285,714	285,714
	250,498	290,694	293,444
TOTAL NET SAVINGS(EXPENSE)	49,502	9,306	6,556
PURCHASE OF MRI	<u>(\$2,000,000)</u>		

The following worksheet shows the financial results with the elimination of the \$170,000 which inaccurately reduced total expenses in the Cape Fear financial analysis.

Fixed MRI

	Year 1	Year 2	Year 3
Procedure Volume	400	400	400
Net Revenue	300,000	300,000	300,000
Expenses			
Labor	134,784	137,480	140,229
Repairs and Maintenance	0	37,500	37,500
Depreciation	285,714	285,714	285,714
Total Expenses	420,498	460,694	463,443
Net Income	-120,498	-160,694	-163,443

At 400 annual MRI scans, the fixed MRI expenses far exceed the projected revenue. If the analysis had included realistic costs for staff benefits, on-call pay, administration and support staff salaries, and equipment maintenance, then the operating loss would be hundreds of thousands greater.

A realistic method of estimating breakeven scan volumes for a fixed MRI scanner at a community hospital would be to use the financial data in the CON-approved project applications of Doshier Memorial Hospital (CON project ID # O-11126-16) and Person Memorial Hospital (CON Project ID # K10277-14). Both of these MRI proposals were developed in responses to petitions for adjusted need determinations for fixed MRI scanners at community hospitals. CON Analysts have confirmed that the financial projections of these two projects were based on reasonable assumptions that included all of the necessary MRI operating expenses. Both applications provided reasonable total annual expenses for operating a single MRI scanner that are far greater than the total expenses projected by the Cape Fear analysis. These applications included net revenue per scan figures that were based on historical data that was substantially less than the \$750 per scan assumptions used by the petitioner. The following table includes the total operating expenses for the second year of operation for these projects as well as the net revenue per MRI scan and the calculated breakeven number of MRI scans.

	Year 2 Total Annual Expenses	Year 2 Net Revenue per MRI Scan	Breakeven Annual MRI Scans
Doshier Memorial Hospital	\$936,469	\$690.21	1,357
Person Memorial Hospital	\$831,757	\$619.35	1,343

The breakeven MRI scan volume is calculated by dividing the Year 2 Total Annual Expenses by the Net Revenue per MRI Scan. Averaging the two breakeven scan amounts results in **1,350 annual scans**, which far exceeds the threshold proposed by Cape Fear. If MRI reimbursement decreases in future years, then the breakeven scan volumes will have to increase. Based on the fact that a fixed MRI scanner is not financially feasible at annual volumes of less than 1,350 scans, the Cape Fear petition should be denied. This analysis of the approved CON applications for fixed MRI scanners also demonstrates that the threshold of 850 annual scans that is included in Proposed Policy TE-3 is unworkable.

In conclusion, Alliance respectfully requests that the Cape Fear Valley Health System petition be denied and that Policy TE-3 also be denied due to the lack of financial feasibility.