



HAWAII STATE HEALTH PLANNING AND DEVELOPMENT AGENCY

ADMINISTRATIVE APPLICATION – CERTIFICATE OF NEED PROGRAM

Application Number 04-13A

Applicant:

St. Francis Medical Center-West

Project Title:

Establishment of Stationary MRI service

Project Address:

St. Francis Medical Center-West
91-2141 Fort Weaver Road, Ewa Beach, Hawaii

1. TYPE OF ORGANIZATION: (Please check all applicable)

Public _____
Private X
Non-profit X
For-profit _____
Individual _____
Corporation X
Partnership _____
Limited Liability Corporation (LLC) _____
Limited Liability Partnership (LLP) _____
Other: _____

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STATE OF HAWAII

2. PROJECT LOCATION INFORMATION

A. Primary Service Area(s) of Project: (please check all applicable)

Statewide: _____
O`ahu-wide: _____
Honolulu: _____
Windward O`ahu: _____
West O`ahu: X
Maui County: _____
Kaua`i County: _____
Hawai`i County: _____

3. DOCUMENTATION (Please attach the following to your application form):

- A. Site Control documentation (e.g. lease/purchase agreement, DROA agreement, letter of intent) Not applicable -- existing site
- B. A listing of all other permits or approvals from other government bodies (federal, state, county) that will be required before this proposal can be implemented (such as building permit, land use permit, etc.) Building permit from the city
- C. Your governing body: list by names, titles and address/phone numbers Attachment A
- D. If you have filed a Certificate of Need Application this current calendar year, you may skip the four items listed below. All others, please provide the following:
 - Articles of Incorporation Attachment B
 - By-Laws Attachment C
 - Partnership Agreements
 - Tax Key Number (project's location)

4. **TYPE OF PROJECT.** This section helps our reviewers understand what type of project you are proposing. Please place an "x" in the appropriate box.

	Used Medical Equipment (over \$400,000)	New/Upgraded Medical Equip. (over \$1 million)	Other Capital Project (over \$4 million)	Change in Service	Change in Beds
Inpatient Facility		XXX		XXX	
Outpatient Facility					
Private Practice					

5. **BED CHANGES.** Please complete this chart only if your project deals with a change in your bed count and/or licensed types. Again, this chart is intended to help our reviewers understand at a glance what your project would like to accomplish. Under the heading "Type of Bed," please use only the categories listed in the certificate of need rules.

Not applicable -- no bed changes

Type of Bed	Current Bed Total	Proposed Beds for your Project	Total Combined Beds if your Project is Approved
TOTAL			

6. PROJECT COSTS AND SOURCES OF FUNDS

A. List All Project Costs:

AMOUNT:

1.	Land Acquisition	RECEIVED	_____
2.	Construction Contract	'04 NOV 24 A9:45	_____
3.	Fixed Equipment (MRI unit and coach)	ST. HLTH. PLNG. & DEV. AGENCY	<u>\$1,150,000</u>
4.	Movable Equipment		_____
5.	Financing Costs		_____
6.	Fair Market Value of assets acquired by lease, rent, donation, etc.		_____
7.	Other: <u>site improvements</u>		<u>200,000</u>

TOTAL PROJECT COST: \$1,350,000

B. Source of Funds

1.	Cash		<u>\$200,000</u>
2.	State Appropriations		_____
3.	Other Grants		_____
4.	Fund Drive		_____
5.	Debt		_____
6.	Other: <u>Lease financing</u>		<u>\$1,150,000</u>

TOTAL SOURCE OF FUNDS: \$1,350,000

7. **CHANGE OF SERVICE:** If you are proposing a change in service, then please briefly list what services will be added/modified. Be sure to include the establishment of a new service or the addition of a new location of an existing service. Please reference the Certificate of Need Rules Section 11-186-5 for the categories of services. If you are unable to determine which category best describes your project, please consult with agency staff.

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Addition of stationary MRI service (Sec. 11-186-5(3)(Y), HAR)

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8. **IMPLEMENTATION SCHEDULE:** Please present a projected time schedule for the completion of this project from start to finish. Include all of the following items that are applicable to your project:

Please see page 7

- a)
- b) Date of site control for the proposed project,
- c) Dates by which other government approvals/permits will be applied for and received,
- d) Dates by which financing is assured for the project,
- e) Date construction will commence,
- f) Length of construction period,
- g) Date of completion of the project,
- h) Date of commencement of operation

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Please remember that the Agency does monitor the implementation of Certificates approved. Non-implementation of a project as described in your application may result in a fine and/or withdrawal of the certificate of need.

9. **EXECUTIVE SUMMARY:** Please present a brief summary of your project. In addition, provide a description of how your project meets each of the certificate of need criteria listed below. If a new location is proposed, please attach an easy to read map that shows your project site.

Please see page 7

Relationship to the Hawai'i Health Performance Plan (H2P2), also known as the State of Hawai'i Health Services and Facilities Plan.

- a) Need and Accessibility
- b) Quality of Service/Care
- c) Cost and Finances (include revenue/cost projections for the first and third year of operation)
- d) Relationship to the existing health care system
- e) Availability of Resources.

10. Eligibility to file for Administrative Review. This project is eligible to file for Administrative review because: (Check all applicable)

- It involves bed changes, which will have a capital expense of \$1,000,000 or less, and which will have an increased annual operating expense of less than \$500,000.
- It involves service changes which will have a capital expense of \$1,000,000 or less, and which will have an increased annual operating expense of less than \$500,000.
- It is an acquisition of a health care facility or service, which will result in lower annual operating expenses for that facility, or service.
- It is a change of ownership, where the change is from one entity to another substantially related entity.
- It is an additional location of an existing service or facility.
- The applicant believes it will not have a significant impact on the health care system.

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8. Implementation Schedule

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- a) **Date of site control.** Not applicable, St. Francis Medical Center West (SFMCW) already controls the site. ²⁰⁰⁴ DEC -6 A9:56
- b) **Dates of other government approvals.** A building permit will be required, and application will be made immediately upon receipt of the CON. We anticipate CON date + 30 days for approval. ^{8 DEY AGENCY}
- c) **Dates by which financing is assured.** Financing will be through the vendor, and will be immediately available.
- d) **Date construction will commence.** Upon receipt of the building permit. Estimate CON date + 30 days.
- e) **Length of construction period.** 30 days.
- f) **Date of completion of the project.** Estimated at December 31, 2004.
- g) **Date of Commencement of operation.** January 1, 2005.

9. Executive Summary

St. Francis Medical Center West ("St. Francis-West") is proposing to establish a stationary MRI service on its campus through the acquisition of the existing mobile unit now operated by Heavenly Images, Inc.

The mobile unit is currently under lease from General Electric Financial Services to Heavenly Images Inc, and St. Francis-West will acquire the unit through the assignment of the existing lease. (See Exhibit 1, "Assignment and Assumption Agreement").

This MRI unit is a 1.5 Tesla unit. It will be housed in the existing trailer which will be permanently established at the pad now used for the mobile service.

The capital expenditure (as defined under Section 323D-2, HRS) for this project will be \$1,350,000. This includes \$200,000 for site improvements and a fair market value of \$1,150,000 for the MRI unit and trailer which will be acquired by lease. The capital cost includes upgrades which we will make when we acquire the unit. (See Exhibit 2, e-mail from GE Healthcare, providing capital value of the unit, trailer and upgrades).

The existing lease runs until the end of 2005, after which SFMCW will execute a new five year lease. Exhibit 3, the pro-forma, provides detailed financial information on the lease.

MRI service is currently provided at St. Francis-West by Heavenly Images, a mobile 1.5 Tesla unit, which has been operating at St. Francis-West four days a week. St. Francis West proposes to acquire this unit and establish it permanently on our campus as a stationary MRI service. With the acquisition of a permanent unit, we will be able to provide our patients with MRI service 24/7. This upgraded service will greatly enhance our ability to provide quality health care to all residents and patients in our area.

A. Relationship to the H2P2 Criteria

The Hawaii Health Performance Plan (H2P2) goals include: increasing "the span of a healthy life for Hawaii residents," reducing "health disparities among Hawaii residents," and achieving "equitable and effective access at a reasonable cost for all Hawaii residents to health services that are responsible to the holistic needs of community's members." The MRI unit proposed in this application will provide numerous benefits to Hawaii residents consistent with these goals. Generally, MRI reduces the need for other less appropriate test and procedures (including invasive procedures), and/or the need for multiple test and procedures. These other tests and procedures are often more costly and uncomfortable for the patient with resulting diagnoses less accurate than by MRI. Therefore, the proposed MRI will serve the Hawaii health care vision of achieving "optimum health."

MRI is a widely accepted diagnostic tool that provides physicians with viable options in diagnosing and treating patients for serious ailments. For example, MRI is the diagnostic study of choice in elderly patients with hip fractures who are osteoporotic and low back pain, screening for cerebral aneurysms, stress fractures and dementia. Furthermore, MRI is a valuable diagnostic tool in the early diagnosis of breast cancer and heart disease. Thus, the proposed MRI unit will serve to "increase the healthy life span of Hawaii residents" by providing "early detection and diagnosis of treatable diseases," reducing "morbidity and pain through timely and appropriate treatment," and reducing "the effects of chronic disease."

There are many advantages to a stationary MRI unit at St. Francis-West. MRI services are now offered 4 days a week at St. Francis-West by the Heavenly Images unit, and there are times when patients have to wait for a day or more for the MRI service to be available. The wait potentially raises the cost of health care because patients are not diagnosed or treated as early as possible. Such delay in diagnosis may result in the patient's condition becoming more serious and requiring even more costly

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treatment. The permanent MRI facility at St. Francis-West will decrease the time for diagnosis and treatment by increasing availability of and accessibility to state-of-the-art MRI technology. Potentially, this can increase the span of a healthy life, improve quality of life and positively affect clinical outcomes. Ultimately, this will result in fewer high-cost treatment cases.

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The proposed MRI unit will allow St. Francis-West patients to have access to quality health care 24/7. Residents will no longer have to travel to other facilities, or wait for the mobile MRI unit. Ultimately, a permanent MRI unit will allow St. Francis-West to achieve its goals to maintain its high quality of care, improve the continuity of care, decrease the length of stays, and minimize travel time for patients and residents in our service area.

Included in Chapter III of the H2P2 is a statement of West O`ahu Subarea Values and Priorities. (West O`ahu used to be made up of two subareas: Central and Wai`anae). The first of two values for the health care system in West O`ahu (formerly Central) is "integrated," which is defined as "providing a seamless continuum of comprehensive, community-focused care delivery. One of the values for the formerly Wai`anae subarea is "equitable," which is defined as "providing equal access to a full spectrum of care, to all persons seeking care. This proposed MRI unit will meet both these priorities. It will contribute to the provision of equal access to a full spectrum of care for all persons, and will contribute to continuum of comprehensive service.

Two of the priority needs identified by West O`ahu are addressed by this proposal. The first is the category of emergency medical services. Although most MRI scans are done on non-emergency patients, there is a percentage of patients that require emergency scans, and it is important to have the service immediately available for them. Another priority calls for improved access and outreach. Again, the proposed MRI service will only serve to improve access of all patients to this important service.

Chapters IV through XI of the H2P2 discuss various diseases and conditions, including infectious diseases: cancer, diabetes and other chronic disabling conditions; heart disease and stroke; preventable injuries and violence; dental (oral) health; maternal, infant and child health; and behavioral health. MRI is a preferred imaging modality because of its superior contrast differentiation between muscle, fat, vessels, tendons, ligaments, cartilage, cortical bone and marrow bone space. Additionally, MRI is able to provide orthopedic neurological, vascular, cardiac, neck, spine, upper extremity, and lower extremity images. While MRI services will not directly impact all of the various diseases and conditions listed in the H2P2, it will have a considerable impact on many of them and will at least have an indirect positive impact on all of them. Generally, the areas

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that MRI services will provide the most significant impact include cancer, diabetes, heart disease, stroke, dental (oral) health, preventable injuries, and injuries resulting from violence.

Utilization guidelines. Chapter II of the H2P2 provides the following utilization guidelines for a new MRI service: "the minimum average annual utilization for all other providers in the service area is 1,500 procedures, and the utilization of the new unit/service is projected to meet the minimum utilization rate by the third year of operation. The proposed new unit at St. Francis-West meets both of these guidelines.

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The table below shows the present providers and their utilization in 2002.

TABLE 1

Facility	Procedures in 2002*
Heavenly Images	3,965
Kaiser	7,406
Kapiolani	1,953
Kuakini	7,335
Pali Momi	4,257
Queen's	11,063
St. Francis-Liliha	5,464
Straub	5,238
Average	5,835

*Source: 2002 SHPDA Utilization Report

The table shows that all providers exceed the 1,500 threshold, even if one considers that Queen's was operating three units.

The other provision of the utilization guideline is that the applicant projects to meet the minimum (1,500 procedures per year) by the third year of operation. St. Francis-West meets this guideline too, since we are projecting 3,340 procedures in FY2005, the first year of operation of the stationary unit. (Please see Exhibit 1, attached).

Summary. The H2P2 states that the basic principles of a health care delivery system include a system that is comprehensive, cost-effective, well-coordinated and responsive to community/regional needs. Based on the foregoing, the addition of the proposed MRI system will make the health care delivery system on O'ahu in general, and West O'ahu in particular, more comprehensive, cost effective, well-coordinated and responsive to community/regional needs. Although the existing mobile service is being phased out, its replacement by permanent units at both Castle and St. Francis-West provides a health care delivery system which better meets the criteria in the H2P2.

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B. Need and Accessibility Criteria

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The service area of the proposed project is generally the West O`ahu area, more particularly the area West of Pearl City and the Wai`anae Coast. The area includes the rapidly growing Kapolei and "second city" area. A secondary service area is the entire Island of O`ahu.

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In general, MRI has now become such a basic service that any Medical Center must provide it to meet the needs of its patients. Although the majority of MRI procedures will be provided to outpatients (we estimate 88%), there are inpatients and emergency patients that also need scans. These can only be provided at SFMCW, with its inpatient and emergency services.

With the availability of a scanner on-site 24/7, and with the stabilization of the number of MRI facilities in the area, SFMCW predicts a 2005 utilization of 3,341. In subsequent years, we project a 10% increase annually. (See Exhibit 1 on page 14).

Summary of Need and Utilization. We assume that the historic and projected need and utilization statistics are one, i.e., the utilization numbers show the number of scans needed by the population (see Table 1). We believe that the need (and utilization) will only continue to increase as the population in West O`ahu grows and the usefulness of MRI in a growing number of diagnostic applications increases.

Accessibility. The services will be accessible to all patients who need MRI services. Services will be provided without discrimination based on race, age, ethnicity, income, religion, gender or any other category. As demonstrated by our history, the services at SFMCW are accessible to all patients, regardless of their ability to pay. SFMCW also has provisions to make services accessible to people with disabilities, language barriers, cultural barriers, etc. Finally, MRI services will be more accessible to all residents of the area when they become available 24/7 at SFMCW.

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C. Quality of Service/Care Criteria.

The proposal relates well to these criteria. SFMCW has a history of providing West O`ahu residents with quality health care. It is a full service medical center, offering a wide range of inpatient and outpatient services. SFMCW is accredited by the Joint Commission of Accreditation of Healthcare Organizations, licensed by the Department of Health and certified by Medicare and Medicaid. SFMCW has ongoing quality improvement programs.

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Further, the quality of MRI service at SFMCW will improve simply by the fact that it will be available 24 hours a day, 7 days a week. Thus there will be no need to transfer to another facility an inpatient who may need an immediate MRI. Further, the service will be constantly available to any emergency room patient who may need it.

D. Cost and Finances Criteria.

The capital cost of the project, as noted on page 4 of 6 of this application, will be \$1,350,000, including \$1,150,000 for the MRI unit and trailer, and \$200,000 for site improvements. The \$200,000 site improvements will be financed by cash from St. Francis, and the capital cost of the equipment will be financed by a lease with the vendor (see Exhibit 3 for annual lease expense).

Exhibit 3 to this application, the proforma, presents a revenue and expense projections for the six years of operation from 2005 to 2010. It shows that the service is financially feasible for all years of operation, i.e., the annual operating revenues are sufficient to cover the operating expenses.

E. Relationship to the Existing Health Care System Criteria.

The proposal relates well to these criteria. SFMCW is the only full service acute hospital west of Aiea, and the only provider of inpatient and emergency services. It is the only place where the system provides MRI service to outpatients, inpatients and emergency patients. The service will be accessible 24/7. This will provide timely service to patients and eliminate the need to travel further from their homes to obtain service.

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The proposal will also provide SFMCW with a positive cash flow, thus enhancing the facility's ability to provide other services the community needs, but which are not self-supporting.

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F. Availability of Resources.

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The proposal meets these criteria. The capital resources will be provided through the lease with the vendor. The resources to operate the service are available, since the revenues will exceed the expenses.

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The service will require an FTE total of 4.0 staff: 1 Radiologist, 2 MRI techs and 1 clerk. SFMCW will provide the radiologist from its current staff. SFMCW has an active recruitment program, and we are confident that we can recruit the techs and the clerk. Indeed, staff from the existing mobile unit may become available as the service winds down.